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**AUDIT SERVICES  
CORPORATION**

DEVELOPMENT BANK OF ETHIOPIA  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
30 JUNE 2019

**Development Bank of Ethiopia**  
Annual consolidated and separate financial statements  
For the year ended 30 June 2019



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The Federal Democratic Republic of Ethiopia  
Audit Services Corporation

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

**Report on the Audit of the Consolidated Financial Statements**

*Opinion*

We have audited the consolidated financial statements of Development Bank of Ethiopia (the Bank) and its consolidated subsidiary (the Group), which comprise the consolidated and separate statement of financial position as at 30 June 2019, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group and of the Bank as at 30 June 2019 and the consolidated and the Bank's financial performances and the consolidated and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Opinion*

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

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

***Key Audit Matters***

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

**A. Loans and advances**

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

**B. Income tax**

The risk is that a lack of intimate knowledge of tax legislation could lead to erroneous tax calculations. This would result in current and deferred tax expense and liabilities being incorrect. Our response was to engage our senior tax professional as an expert to check the tax situation. We obtained a detailed schedule for all temporary differences along with expenses which are disallowed under income tax legislation. We obtained a calculation of the tax liability identifying all items constituting the difference between net pre-tax income and taxable income, and compared the calculation to that of the previous year. The calculation was reviewed to determine that correct tax rates had been used and that all significant tax matters had been addressed. We checked the calculation of deferred taxes and that timing differences had been appropriately considered. We found no errors of principle.

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**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, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.

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**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*

3 December 2020



**Development Bank of Ethiopia**  
Annual consolidated and separate financial statements

For the year ended 30 June 2019

Board of management, professional advisers and registered office



**License for Banking Business and Lease Financing**

NBE Registration No. LBB/003/70

**Board of Management** (as of June 30, 2019)

H.E. Dr. Tegegnetwork Gettu  
H.E. Ato Oumar Hussein  
H.E. Dr. Yohannes Ayalew  
H.E. Dr. Esayas Kassa  
H.E. Ato Tefera Derbew  
H.E. Ato Sileshi Lemma  
H.E. Ato Mesfin Namera  
H.E. W/t Mele'ekt Sahlu  
H.E. Ato Zekarias Erkelo

Chairman  
Deputy Chairman  
Non-Executive Director (Board of Management Member)  
Non-Executive Director (Board of Management Member)

**Executive management** (as of June 30, 2019)

Ato Haileyesus Bekele  
Ato Getachew Wakie  
Ato Teshome Alemayehu  
Ato Hadush G/Egziabher

President  
V/P Customer Relationship Management  
V/P Medium Enterprises Financing  
V/P Corporate Services

**Registered office**

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

**Independent auditors**

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

**Actuaries**

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



**Development Bank of Ethiopia**  
**Annual consolidated and separate financial statements**  
 For the year ended 30 June 2019  
**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 2019. 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.

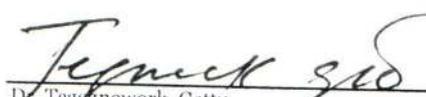
**Results**

The Group's and Bank's results for the year ended 30 June 2019 are set out on page 8. The net loss for the year has been transferred to retained earnings. The summarized results are presented below.

|  | <b>Group<br/>30 June 2019<br/>Birr'000</b> | <b>Bank<br/>30 June 2019<br/>Birr'000</b> | <b>Group<br/>30 June 2018<br/>Birr'000</b> | <b>Bank<br/>30 June 2018<br/>Birr'000</b> |
|--|--|---|--|---|
| Interest income  | 5,762,510                                  | 5,761,780                                 | 4,682,779                                  | 4,682,203                                 |
| Loss before tax  | (1,491,004)                                | (1,490,861)                               | (1,675,450)                                | (1,675,216)                               |
| Income tax expense                                     | (181,279)                                  | (181,279)                                 | (202,560)                                  | (202,629)                                 |
| <b>Loss for the year</b>                               | <b>(1,672,283)</b>                         | <b>(1,672,140)</b>                        | <b>(1,878,010)</b>                         | <b>(1,877,845)</b>                        |
| Other comprehensive income/ (loss), net of taxes       | 5,758                                      | 5,758                                     | (8,600)                                    | (8,600)                                   |
| <b>Total comprehensive income/ (loss) for the year</b> | <b>(1,666,525)</b>                         | <b>(1,666,382)</b>                        | <b>(1,886,610)</b>                         | <b>(1,886,444)</b>                        |

**Board of Management**

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

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



**Development Bank of Ethiopia**  
Annual consolidated and separate financial statements  
For the year ended 30 June 2019  
*Statement of board of management's responsibilities*



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

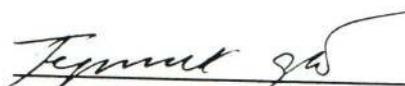
The Group's and Bank's Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial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

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

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

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

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

  
\_\_\_\_\_  
Dr. Tegegnetwork Gettu

Chairman, Board of Management

  
\_\_\_\_\_  
Dr. Yohannes Ayalew

President/Chief Executive Officer



# Development Bank of Ethiopia

## Consolidated and separate statement of profit or loss and other comprehensive income For the year ended 30 June 2019



|  | Notes | Group              | Bank               | Group              | Bank               |
|--|-------|--------------------|--------------------|--------------------|--------------------|
|  |       | 30 June 2019       | 30 June 2019       | 30 June 2018       | 30 June 2018       |
|  |       | Birr'000           | Birr'000           | Birr'000           | Birr'000           |
| Interest income calculated using the effective interest method   | 5     | 5,762,510          | 5,761,780          | 4,682,779          | 4,682,203          |
| Interest expense calculated using the effective interest method  | 6     | (2,390,326)        | (2,390,326)        | (1,585,699)        | (1,585,699)        |
| <b>Net interest income</b>   |       | <b>3,372,183</b>   | <b>3,371,454</b>   | <b>3,097,080</b>   | <b>3,096,504</b>   |
| Fee and commission income (net)  | 7     | 338,343            | 338,343            | 278,323            | 278,323            |
| Other operating income   | 8     | 282,842            | 282,842            | 88,510             | 88,510             |
| <b>Total operating income</b>  |       | <b>3,993,369</b>   | <b>3,992,639</b>   | <b>3,463,913</b>   | <b>3,463,337</b>   |
| Loan impairment charge   | 9     | (4,187,688)        | (4,187,688)        | (4,412,448)        | (4,412,448)        |
| Impairment reversal/ (losses) on other assets  | 10    | (408,110)          | (408,110)          | 68,059             | 68,059             |
| <b>Net operating income/ (loss)</b>  |       | <b>(602,429)</b>   | <b>(603,159)</b>   | <b>(880,476)</b>   | <b>(881,052)</b>   |
| Personnel expenses   | 11    | (493,328)          | (492,705)          | (476,281)          | (475,801)          |
| Depreciation of investment property  | 19    | (3,906)            | (3,906)            | (8,995)            | (8,995)            |
| Amortization of intangible assets<br>equipment   | 20    | (6,318)            | (6,318)            | (4,578)            | (4,578)            |
| Other operating expenses   | 21    | (72,498)           | (72,491)           | (75,202)           | (75,200)           |
|  | 12    | (312,525)          | (312,282)          | (229,917)          | (229,590)          |
| <b>Loss before tax</b>   |       | <b>(1,491,004)</b> | <b>(1,490,861)</b> | <b>(1,675,450)</b> | <b>(1,675,216)</b> |
| Income tax income/ (expense)   | 13    | (181,279)          | (181,279)          | (202,560)          | (202,629)          |
| <b>Profit/(loss) after tax</b>   |       | <b>(1,672,283)</b> | <b>(1,672,140)</b> | <b>(1,878,010)</b> | <b>(1,877,845)</b> |
| <b>Other comprehensive income (OCI) net on income tax</b>  |       |                    |                    |                    |                    |
| <i>Items that will not be subsequently reclassified into profit or loss:</i>   |       |                    |                    |                    |                    |
| Remeasurement gain/ (loss) on retirement benefits  | 26    | (7,912)            | (7,912)            | (12,285)           | (12,285)           |
| Equity investments at FVOCI – net change in fair value   | 16    | 16,138             | 16,138             |                    |                    |
| Deferred tax expense/(income) on remeasurement gain<br>or loss (retirement benefits) & net change in fair value<br>(equity investments at FVOCI) | 13    | (2,468)            | (2,468)            | 3,686              | 3,686              |
| <b>Total other comprehensive income/ (loss) for the<br/>year, net of tax</b>   |       | <b>5,758</b>       | <b>5,758</b>       | <b>(8,600)</b>     | <b>(8,600)</b>     |
| <b>Total comprehensive income/ (loss) for the year</b>   |       | <b>(1,666,525)</b> | <b>(1,666,382)</b> | <b>(1,886,610)</b> | <b>(1,886,444)</b> |
| <b>Profit/ (loss) attributable to:</b>   |       |                    |                    |                    |                    |
| Owner of the bank  |       | (1,672,283)        | (1,672,140)        | (1,878,011)        | (1,877,845)        |
| Non-controlling interest   | 32    | (0.01)             |                    | (0.01)             |                    |
| <b>Profit/ (loss) for the year</b>   |       | <b>(1,672,283)</b> | <b>(1,672,140)</b> | <b>(1,878,011)</b> | <b>(1,877,845)</b> |
| <b>Total comprehensive income/ (loss) attributable to:</b>   |       |                    |                    |                    |                    |
| Owner of the bank  |       | (1,666,525)        | (1,666,382)        | (1,886,610)        | (1,886,444)        |
| Non-controlling interest   |       | (0.01)             |                    | (0.01)             |                    |
| <b>Total comprehensive income/ (loss) for the period</b>   |       | <b>(1,666,525)</b> | <b>(1,666,382)</b> | <b>(1,886,610)</b> | <b>(1,886,444)</b> |

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



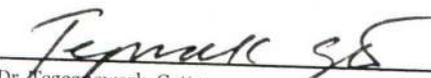
**Development Bank of Ethiopia**  
Consolidated and separate statement of financial position  
As at 30 June 2019

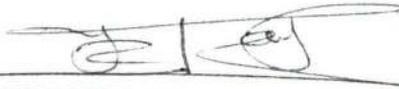


|   | Notes | Group             | Bank              | Group             | Bank              |
|---|-------|-------------------|-------------------|-------------------|-------------------|
|   |       | 30 June 2019      | 30 June 2019      | 30 June 2018      | 30 June 2018      |
|   |       | Birr'000          | Birr'000          | Birr'000          | Birr'000          |
| <b>ASSETS</b>   |       |                   |                   |                   |                   |
| Cash and bank balances  |       |                   |                   |                   |                   |
| Loans and advances to customers   | 14    | 7,604,457         | 7,595,676         | 6,983,531         | 6,973,920         |
| Investment securities:  | 15    | 40,248,990        | 40,248,990        | 29,414,327        | 29,414,327        |
| - Financial assets measured at FVOCI (2018: AF)                             | 16    | 25,390            | 25,390            | 11,376            | 11,376            |
| - Financial assets measured at amortized cost (2018: Loans and receivables) | 16    | 31,038,403        | 31,038,403        | 31,624,349        | 31,624,349        |
| Investment in subsidiary  | 17    |                   | 9,999             |                   | 9,999             |
| Other assets  | 18    | 3,371,353         | 3,370,382         | 4,093,056         | 4,092,917         |
| Investment property   | 19    | 219,082           | 219,082           | 215,278           | 215,278           |
| Intangible assets   | 20    | 77,484            | 77,484            | 35,639            | 35,639            |
| Property, plant and equipment   | 21    | 814,189           | 814,175           | 823,269           | 823,229           |
| <b>Total assets</b>   |       | <b>83,399,347</b> | <b>83,399,581</b> | <b>73,200,824</b> | <b>73,201,034</b> |
| <b>LIABILITIES</b>  |       |                   |                   |                   |                   |
| Deposits from customers   | 22    | 800,683           | 800,683           | 1,112,935         | 1,112,935         |
| Current tax liabilities   | 13    | 106,236           | 106,236           | 276,430           | 276,498           |
| Other liabilities   | 25    | 4,363,261         | 4,363,118         | 3,994,246         | 3,994,223         |
| Debt securities issued  | 23    | 9,800,005         | 9,800,005         | 10,496,009        | 10,496,009        |
| Borrowings  | 24    | 62,315,634        | 62,315,634        | 54,541,222        | 54,541,222        |
| Retirement benefit obligations  | 26    | 47,696            | 47,696            | 35,631            | 35,631            |
| Deferred tax liabilities  | 13    | 240,050           | 240,050           | 187,439           | 187,439           |
| <b>Total liabilities</b>  |       | <b>77,673,565</b> | <b>77,673,422</b> | <b>70,643,911</b> | <b>70,643,956</b> |
| <b>EQUITY</b>   |       |                   |                   |                   |                   |
| Capital   | 27    | 7,500,000         | 7,500,000         | 7,500,000         | 7,500,000         |
| Legal reserve   | 31    | 176,527           | 176,527           | 176,527           | 176,527           |
| Retained earnings   | 28    | (4,435,059)       | (4,434,682)       | (7,231,521)       | (7,231,355)       |
| Regulatory credit risk reserve  | 30    | 2,488,509         | 2,488,509         | 2,120,377         | 2,120,377         |
| Other reserve   | 29    | (4,195)           | (4,195)           | (8,471)           | (8,471)           |
| <b>Total equity attributable to owner of the Bank</b>                       |       | <b>5,725,782</b>  | <b>5,726,159</b>  | <b>2,556,912</b>  | <b>2,557,078</b>  |
| Non-controlling interest  | 32    | 1                 | 1                 | 1                 | 1                 |
| <b>Total equity</b>   |       | <b>5,725,782</b>  | <b>5,726,159</b>  | <b>2,556,913</b>  | <b>2,557,078</b>  |
| <b>Total equity and liabilities</b>   |       | <b>83,399,347</b> | <b>83,399,581</b> | <b>73,200,824</b> | <b>73,201,034</b> |

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

The financial statements on pages 8 to 94 were approved and authorized for issue by the board of management on the 3rd of December 2020 and were signed on its behalf by:

  
Dr. Tegegnework Gettu  
Chairman, Board of Management

  
Dr. Yohannes Ayalew  
President/Chief Executive Officer



**Development Bank of Ethiopia**  
*Consolidated and separate statement of changes in equity*  
 For the year ended 30 June 2019



**Group**

| Notes   | Capital   | Retained    | Other    | Legal    | Regulatory  | Attributable to |
|---|-----------|-------------|----------|----------|-------------|-----------------|
|   | Birr'000  | earnings    | reserve  | reserve  | credit risk | owner of the    |
|   | Birr'000  | Birr'000    | Birr'000 | Birr'000 | reserve     | Bank            |
|   |           |             |          |          | Birr'000    | Birr'000        |
| <b>As at 1 July 2017</b>  | 7,500,000 | (4,699,492) | 129      | 176,527  | 1,671,589   | 4,648,753       |
| Loss for the period   |           | (1,878,011) |          |          |             |                 |
| Dividend paid   |           | (225,955)   |          |          | (0.01)      | (1,878,011)     |
| Adjustment in respect of tax recoverable  |           | 20,725      |          |          |             | (225,955)       |
| <i>Transfer to regulatory credit risk reserve</i>   |           | (448,787)   |          | 448,787  |             | 20,725          |
| <i>Change in ownership interest in subsidiary</i>   |           |             |          |          |             |                 |
| <i>Other comprehensive income:</i>  |           |             |          |          |             |                 |
| Re-measurement gains on defined benefit plans (net of tax)  |           |             | (8,600)  |          |             | 1               |
|   |           |             |          |          |             | (8,600)         |
| <b>As at 30 June 2018</b>   | 7,500,000 | (7,231,520) | (8,471)  | 176,527  | 448,787     | (2,091,840)     |
| <b>As at 1 July 2018</b>  | 7,500,000 | (7,231,520) | (8,471)  | 176,527  | 2,120,376   | 2,556,913       |
| Adjustment on initial application of IFRS 9, net of tax   |           | 4,836,946   |          |          |             |                 |
| Opening balance adjustment  |           | (69)        |          |          |             |                 |
| <b>Restated balance as at 1 July 2018</b>   | 7,500,000 | (2,394,643) | (9,954)  | 176,527  | 2,120,376   | 7,392,307       |
| Loss for the period   |           | (1,672,283) |          |          |             | (69)            |
| Transfer to regulatory credit risk reserve  |           | (368,133)   |          |          | 368,133     | (1,672,283)     |
| Change in ownership interest in subsidiary  |           |             |          |          |             |                 |
| <i>Other comprehensive income:</i>  |           |             |          |          |             |                 |
| Re-measurement gains on defined benefit plans (net of tax)  |           |             | (5,538)  |          |             | -0.01           |
| Change in fair value of equity instrument measured at fair value through other comprehensive income (2018-AFS) (net of tax) |           |             | 11,297   |          |             | (5,538)         |
|   |           |             |          |          |             | 11,297          |
| <b>As at 30 June 2019</b>   | 7,500,000 | (4,435,059) | (4,195)  | 176,527  | 2,488,509   | (1,666,525)     |
|   |           |             |          |          |             | 1               |
|   |           |             |          |          |             | 5,725,782       |



**Development Bank of Ethiopia**  
*Consolidated and separate statement of changes in equity*  
 For the year ended 30 June 2019



**Bank**

| Notes   | Capital<br>Birr'000 | Retained<br>earnings<br>Birr'000 | Other<br>reserve<br>Birr'000 | Legal<br>reserve<br>Birr'000 | Regulatory<br>risk reserve<br>Birr'000 | Attributable<br>to owner of<br>the Bank<br>Birr'000 |
|---|---------------------|----------------------------------|------------------------------|------------------------------|--|---|
| <b>As at 1 July 2017</b>  | 7,500,000           | (4,699,492)                      | 129                          | 176,527                      | 1,671,589                              | 4,648,752   |
| Loss for the period   |                     | (1,877,845)                      |                              |                              |  | (1,877,845)   |
| Dividend paid   |                     | (225,955)                        |                              |                              |  | (225,955)   |
| Adjustment in respect of tax recoverable  |                     | 20,725                           |                              |                              |  | 20,725  |
| Transfer to regulatory credit risk reserve  |                     | (448,787)                        |                              |                              | 448,787                                |   |
| <i>Other comprehensive income:</i>  |                     |                                  |                              |                              |  |   |
| Re-measurement gains on defined benefit plans<br>(net of tax)   |                     | -                                | (8,600)                      |                              |  | (8,600)   |
| <b>As at 30 June 2018</b>   | <b>7,500,000</b>    | <b>(7,231,355)</b>               | <b>(8,471)</b>               | <b>176,527</b>               | <b>2,120,377</b>                       | <b>2,557,078</b>                                    |
| <b>As at 1 July 2018</b>  | 7,500,000           | (7,231,355)                      | (8,471)                      | 176,527                      | 2,120,377                              | 2,557,078   |
| Adjustment on initial application of IFRS 9, net of tax   |                     | 4,836,946                        | (1,483)                      |                              |  | 4,835,463   |
| <b>Restated balance as at 1 July 2018</b>   | <b>7,500,000</b>    | <b>(2,394,408)</b>               | <b>(9,953)</b>               | <b>176,527</b>               | <b>2,120,377</b>                       | <b>7,392,542</b>                                    |
| Loss for the period   |                     | (1,672,140)                      |                              |                              |  | (1,672,140)   |
| Transfer to regulatory credit risk reserve  |                     | (368,133)                        |                              |                              | 368,133                                |   |
| <i>Other comprehensive income:</i>  |                     |                                  |                              |                              |  |   |
| Re-measurement gains on defined benefit plans (net of tax)  |                     |                                  | (5,538)                      |                              |  | (5,538)   |
| Change in fair value of equity instrument measured at fair value through other comprehensive income (2018-AFS) (net of tax) |                     |                                  | 11,297                       |                              |  | 11,297  |
| <b>As at 30 June 2019</b>   | <b>7,500,000</b>    | <b>(4,434,682)</b>               | <b>(4,195)</b>               | <b>176,527</b>               | <b>2,488,509</b>                       | <b>5,726,159</b>                                    |



*Development Bank of Ethiopia*  
*Consolidated and separate statement of cash flows*  
For the year ended 30 June 2019



| Notes   | Group        | Bank               | Group              | Bank                |                     |
|---|--------------|--------------------|--------------------|---------------------|---------------------|
|   | 30 June 2019 | 30 June 2019       | 30 June 2018       | 30 June 2018        |                     |
|   | Birr'000     | Birr'000           | Birr'000           | Birr'000            |                     |
| <b>Cash flows from operating activities</b>                           |              |                    |                    |                     |                     |
| Cash generated from operations  | 33           | (6,137,723)        | (6,136,893)        | (4,138,176)         | (4,137,829)         |
| Income tax paid   | 13           | (300,763)          | (300,763)          | 6,568               | 6,568               |
| <b>Net cash (outflow)/inflow from operating activities</b>            |              | <b>(6,438,486)</b> | <b>(6,437,657)</b> | <b>(4,131,608)</b>  | <b>(4,131,261)</b>  |
| <b>Cash flows from investing activities</b>                           |              |                    |                    |                     |                     |
| Purchase of investment securities in equity, treasury bills and bonds | 16           |                    |                    | (16,587,405)        | (16,587,405)        |
| Purchase of investment in subsidiary                                  | 17           |                    |                    |                     | (9,999)             |
| Purchase of investment property                                       | 19           | (7,711)            | (7,711)            | (129)               | (129)               |
| Purchase of intangible assets   | 20           | (48,163)           | (48,163)           | (17,075)            | (17,075)            |
| Proceeds from sale of property, plant and equipment                   | 33           | 1,266              | 1,266              | 4,076               | 4,076               |
| Purchase of property, plant and equipment                             | 21           | (205,892)          | (205,892)          | (60,524)            | (60,482)            |
| <b>Net cash (outflow)/inflow from investing activities</b>            |              | <b>(260,500)</b>   | <b>(260,500)</b>   | <b>(16,661,057)</b> | <b>(16,671,014)</b> |
| <b>Cash flows from financing activities</b>                           |              |                    |                    |                     |                     |
| Proceeds from issue of debt securities                                | 23           | 1,617,465          | 1,617,465          | 2,410,895           | 2,410,895           |
| Repayment of debt securities  | 23           | (2,313,469)        | (2,313,469)        | (1,222,230)         | (1,222,230)         |
| Proceeds from borrowings  | 24           | 9,249,469          | 9,249,469          | 26,110,612          | 26,110,612          |
| Accrued effective interest and rate fluctuation                       | 24           | 1,819,164          | 1,819,164          | 525,743             | 525,743             |
| Repayment of borrowings   | 24           | (3,294,359)        | (3,294,359)        | (4,486,972)         | (4,486,972)         |
| State dividend paid   |              |                    |                    | (225,955)           | (225,955)           |
| Change in non-controlling interest                                    | 17 (ii)      |                    |                    | 1                   |                     |
| <b>Net cash (outflow)/inflow from financing activities</b>            |              | <b>7,078,271</b>   | <b>7,078,271</b>   | <b>23,112,093</b>   | <b>23,112,093</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>           |              | <b>379,286</b>     | <b>380,115</b>     | <b>2,319,428</b>    | <b>2,309,818</b>    |
| Cash and cash equivalents at the beginning of the year                | 14           | 6,983,531          | 6,973,920          | 4,604,605           | 4,604,605           |
| Foreign exchange (losses)/ gains on cash and cash equivalents         |              | 242,019            | 242,019            | 59,497              | 59,497              |
| <b>Cash and cash equivalents at the end of the year</b>               | 14           | <b>7,604,836</b>   | <b>7,596,055</b>   | <b>6,983,531</b>    | <b>6,973,920</b>    |

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





## **1 General information**

Development Bank of Ethiopia ("Development Bank or the Bank") is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the Government by mobilizing funds from domestic and foreign sources while ensuring its sustainability. The consolidated and separate financial statements of the Bank for the year ended 30 June 2019 comprise the Bank and its subsidiary (together referred to as "the Group" and separately referred to as "Group entities"). The Bank and its subsidiary are not listed on a stock market as there is no a stock exchange in the country.

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

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

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

The Bank's registered office is at:

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

The Bank is principally engaged in the provision of diverse range of financial products and services to corporate, retail and small- and medium-sized enterprise clients based 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, unless otherwise stated.

#### **Basis of preparation**

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

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

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

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

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





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

## **2.2 Going concern**

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

## **2.3 Changes in accounting policies and disclosures**

### **New and amended standards and interpretations**

#### **New standards, amendments, interpretations effective and adopted during the year**

In these financial statements, the Group and Bank have adopted, for the first time, IFRS 9 Financial Instruments and the consequential amendments to IFRS 7 Financial Instruments: Disclosures, and IFRS 15 Revenue from Contracts with Customers, effective for annual period beginning on or after 1 July 2018. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below. Except for the changes below, the Group and Bank have consistently applied the accounting policies to all periods presented in these consolidated financial statements.

Several other new standards, amendments and interpretations also apply for the first time effective from 1 July 2018, but do not have an impact on the Bank's consolidated financial statements. The Group and Bank have not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

#### **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 hedge 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 after 1 July 2018.

The Group and Bank have not restated comparative information for 2018 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable with the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 July 2018.

As a result of the adoption of IFRS 9, the Group and Bank have adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Group and Bank disclosed this amount in the notes to the financial statements.

Additionally, the Group and Bank have adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2019, but have not been applied to the comparative information.

The key changes to the Group's and Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

#### **Changes to classification and measurement of financial assets and liabilities**

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 asset's 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.



**Development Bank of Ethiopia**  
*Notes to the consolidated and separate financial statements*  
 For the year ended 30 June 2019



The IAS 39 measurement categories of financial asset (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition
- Financial assets at fair value through profit or loss (FVPL)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI with no subsequent reclassification to profit or loss; and
- the remaining amount of change in the fair value is presented in profit or loss.

The quantitative impact of applying IFRS 9 as at 1 July 2018 is presented as follows:

| Financial assets  | Classification under IAS 39 | New classification under IFRS 9 | 30 June 2018                          |                  | 1 July 2018                      |
|---|-----------------------------|---------------------------------|---------------------------------------|------------------|----------------------------------|
|   |                             |                                 | Original carrying amount under IAS 39 | Re-measurement   | New carrying amount under IFRS 9 |
|   |                             |                                 | Birr '000                             | Birr '000        | Birr '000                        |
| Cash and cash equivalents   | Loans and receivables       | Amortised cost                  | 6,973,920                             | (347)            | 6,973,573                        |
| Loans and advances to customers                                     | Loans and receivables       | Amortised cost                  | 29,414,327                            | 4,828,286        | 34,242,613                       |
| Investment securities: Available for sale                           | Available for sale          | FVOCI                           | 11,376                                | (2,124)          | 9,252                            |
| Investment securities: Loans and receivables                        | Loans and receivables       | Amortised cost                  | 31,624,349                            | (1,581)          | 31,622,767                       |
| Other financial assets at amortised cost                            | Loans and receivables       | Amortised cost                  | 2,632,300                             | 10,696           | 2,642,995                        |
| <b>Total financial assets</b>                                       |                             |                                 | <b>70,656,272</b>                     | <b>4,834,930</b> | <b>75,491,201</b>                |
| <b>Financial liabilities</b>  |                             |                                 |                                       |                  |                                  |
| Deposits from customers   | Amortised cost              | Amortised cost                  | 1,112,935                             | -                | 1,112,935                        |
| Other financial liabilities (including ECL on financial guarantees) | Amortised cost              | Amortised cost                  | 3,977,857                             | 107              | 3,977,964                        |
| <b>Total financial liabilities</b>                                  |                             |                                 | <b>5,090,792</b>                      | <b>107</b>       | <b>5,090,899</b>                 |

**Changes to the impairment of financial assets calculation**

The adoption of IFRS 9 has fundamentally changed the Group's and Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group and Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.





Specifically, 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.

#### **Transition from IAS 39 to IFRS 9**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

The Group and Bank used the exemption not to restate comparative periods, but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI. The Group and Bank have changed the description of the line item from 'interest income' reported in 2018 to 'interest income calculated using the effective interest method' in 2019.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

#### **IFRS 7R**

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 July 2018. Changes include:

- Transition disclosures
- Detailed qualitative and quantitative information about the ECL calculations, such as the assumptions and inputs used.
- Additional and more detailed disclosures for hedge accounting (which is not currently applicable to the Group and Bank).

The Group and Bank have not restated comparatives for financial instruments covered by IFRS 9 and IAS 39. The comparative information for 2018 is under IAS 39 and is not comparable with the information presented for 2019 under IFRS 9. Differences arising from the adoption of IFRS 9 were recognised directly in Retained earnings on 1 July 2018.

#### **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. In general, IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.





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 July 2018 and earlier application is permitted.

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point in time or over time. The standard specifies how and when the Group and Bank will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

To sum up, the adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group and Bank and no adjustment to retained earnings was required, as the previous accounting treatment is more or less similar to that of this standard. Instead, the impact on the comparative information is limited to new disclosure requirements.

#### **2.4 Basis of Consolidation**

##### *a) Subsidiaries*

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

##### *b) Loss of control*

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

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

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

##### *d) Transactions eliminated on consolidation*

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

##### *e) Non-controlling interests*

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

#### **2.5 Foreign currency translation**

##### *a) Functional and presentation currency*

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

##### *b) Transactions and balances*

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





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

## **2.6 Recognition of income and expenses**

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

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

### **2.6.1 Interest income and expense**

#### **a) Policy applicable from 1 July 2018**

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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

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

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or incurred credit loss before 1 July 2018) if the financial assets fall into Stage 3 (impaired loans).

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

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

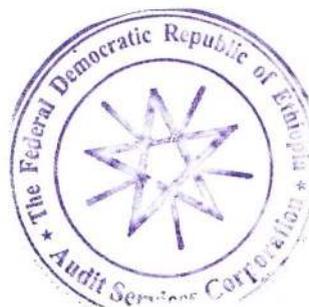
However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

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

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





**b) Policy applicable before 1 July 2018**

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.

**2.6.2 Fees and commission**

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

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.

**2.6.3 Dividend income**

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

**2.6.4 Foreign exchange revaluation gains or losses**

These are gains and losses arising on 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.

**2.7 Financial instruments**

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

**2.7.1 Financial assets and liabilities**

**Policy applicable from 1 July 2018**

**i) Recognition and initial measurement**

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

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





**ii) Classification and subsequent measurement**

**a) Financial assets**

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

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

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

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

**Business model assessment**

The Group and Bank make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's and Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of revenue in prior periods, the reasons for such revenue and its expectations about future revenue activity. However, information about revenue activity is not considered in isolation, but as part of an overall assessment of how the Group's and Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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





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

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

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

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

**b) Financial liabilities**

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

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

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

**iii) Impairment**

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

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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





**a) Measurement of ECL**

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

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

**b) Restructured financial assets**

Where the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the Group and Bank assess whether the financial asset should be derecognised and expected credit loss (ECL) are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

**c) Credit-impaired financial assets**

At each reporting date, the Group and Bank assess whether financial assets carried at amortised cost, debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets').

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

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

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

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

**d) Presentation of allowance for expected credit loss (ECL) in the statement of**

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

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





**e) Write-off**

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income (OCI).

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

**f) Non-integral financial guarantee contract**

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

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

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

**iv) Derecognition of financial assets and liabilities**

**a) Financial assets**

The Group and Bank derecognise a financial asset when:

- The contractual right to the cash flows from the financial asset expires; or
- It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Group and Bank neither transfer nor retain substantially all of the risks and rewards of ownership and they do not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI are recognised in profit or loss.

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

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

**b) Financial liabilities**

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

**v) Modifications of financial assets and financial liabilities**

**a) Financial assets**

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





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

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

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

If the Group and Bank plan to modify a financial asset in a way that would result in forgiveness of cash flows, then they consider whether a portion of the asset should be written off before the modification takes place.

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

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

#### **b) Financial liabilities**

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

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

#### **vi) Offsetting**

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

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

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

##### **a) Financial assets**

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

##### **b) Financial liabilities**

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

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





## **2.7.2 Financial assets and liabilities**

### **Policy applicable before 1 July 2018**

#### **i) Financial assets**

##### **Initial recognition**

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.

##### **Classification and subsequent measurement**

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

- Loans and receivables
- Available-for-sale (AFS) 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 Group's and Bank's loans and receivables comprise loans and advances to customers, Ethiopian Treasury bills, Ethiopian government bonds and other receivables.

#### **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 loss 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 Group and Bank immediately recognise 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.

##### **Reclassification of financial assets**

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group and Bank do not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to statement of profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to statement of profit or loss.





The Group and Bank may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group and Bank subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

#### **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 Group's and Bank's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group and Bank have transferred their rights to receive cash flows from the asset or have 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 Group and Bank have transferred substantially all the risks and rewards of the asset, or

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

When the Group and Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if and to what extent they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and Bank continue to recognise the transferred asset to the extent of the Group's and Bank's continuing involvement. In that case, the Group and Bank also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and Bank have 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 Group and 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. 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 an event occurring 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.

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 their fair value at the repossession date in line with the Group's and 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 Group's and 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.

## **ii) 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.

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.

#### **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Group and Bank have 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 Group and Bank or the counterparty.





## 2.8 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents include cash 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.

## 2.9 Property, plant and Equipment

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

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

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

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

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

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

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

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

## 2.10 Intangible assets

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

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





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

#### **2.11 Investment property**

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

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

Investment properties are measured initially at deemed cost. The Group and Bank have opted to subsequently carry investment property at cost less accumulated depreciation and any accumulated impairment losses under the cost model and disclose fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group and Bank use alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by the Bank's internal valuers who have recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for disclosing the fair values in the notes to the financial statements.

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

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

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised. Investment properties are derecognised when they have been disposed. Gains or losses arising from disposal of investment property are determined as the difference of the net disposal proceeds and the carrying amount of the asset and they are recognized in profit or loss.

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

#### **2.12 Impairment of non-financial assets**

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

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

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





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

### **2.13 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) Prepayment**

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

#### **(b) Other receivables**

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

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

### **2.14 Fair value measurement**

The Group and Bank measure financial instruments classified as at fair value through other comprehensive income (FVOCI) (2018: available-for-sale at cost), defined benefit obligations and staff loans at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are, summarised in the following notes:

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

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

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

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

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

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

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

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





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

The Group's and Bank's management determine the policies and procedures for both recurring fair value measurement, such as equity investments at fair value through other comprehensive income (2018: available-for-sale financial assets at cost).

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

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

### **(b) Defined benefit plan**

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

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

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

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

Past-service costs are recognised immediately in 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.





#### **2.16 Provisions**

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

#### **2.17 Capital**

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

The authorized capital is fully paid up.

#### **2.18 Legal reserve**

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

#### **2.19 Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an assets for an agreed period of time.

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.

##### ***Bank as a lessee***

Leases that do not transfer to the Group and Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. 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 Group and Bank do 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.





## **2.20 Income taxation**

### **(a) Current income tax**

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

### **(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.

## **2.21 Standards issued but not yet effective**

### **New Standards, amendments, interpretations issued but not yet effective**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted. However, the Group and Bank have not early adopted them in preparing these consolidated and separate financial statements.

None of these is expected to have a significant effect on the financial statements of the Group and Bank, except the following set out below:

#### **IFRS 16 - Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. 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 of 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.

This standard is required to be adopted from 1 July 2019 (for those entities whose financial year runs from 1 July to 30 June of each year). Early application is permitted. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

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





#### **IAS 1 and IAS 8 Definition of Material**

The amendment refines the definition of material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendment also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. The Group and Bank are assessing the potential impact on their financial statements resulting from the application of the refined definition of materiality.

#### **IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period;
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);
- Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end;
- Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement; and
- The amendments apply for plan amendments, curtailments or settlements that occur after 1 July 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The Group and Bank are assessing the potential impact on the financial statements resulting from the application of the amendments to IAS 19.

#### **IFRIC 23 Clarification on accounting for Income tax exposures**

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

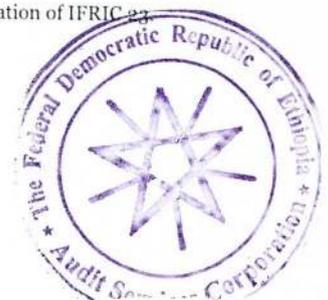
If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that of tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed. The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

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

- (a) judgments made;
- (b) assumptions and other estimates used; and
- (c) potential impact of uncertainties not reflected.

The new Standard is effective for annual period beginning after 1 July 2019.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.





#### **Other standards**

The following amended standards are not expected to have a significant impact on the Group's and Bank's consolidated and separate financial statements:

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Amendments to references to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts

### **3 Significant accounting judgments, estimates and assumptions**

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

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

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

#### **3.1 Judgments**

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

##### **a) Operating lease commitments - Bank as lessee**

The Group and Bank have entered into commercial property leases. The Group and Bank have 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.

##### **b) Going concern basis**

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

#### **3.2 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group and Bank based 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 Group and Bank. Such changes are reflected in the assumptions when they occur.

##### **a) Impairment losses on loans and advances to customers**

###### **i) Policy applicable after 1 July 2018**

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.





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

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

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

**ii) Policy applicable before 1 July 2018**

The Group and Bank review its loan portfolios for impairment on an on-going basis. The Group and Bank first assess 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 one year where the financial asset is collateralised.

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 Group's and 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.

**b) 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.





**c) Defined benefit plans**

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

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

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

**e) Impairment of non-financial assets**

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

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

(i) External information

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

(ii) Internal information

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

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

**f) Income tax**

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

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





#### **4 Financial risk management**

##### **4.1 Introduction**

Risk is inherent in the Group's and Bank's activities, but is managed through 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 its 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 Compliance and Risk Management Directorate is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Executive Management, Board Risk Sub-Committee and Asset and Liability Management Committee to ensure that procedures are compliant with the overall framework.

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

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

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

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

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

The Bank's policy is that the risk management processes throughout the Bank are audited at least once per year by the Internal Audit Unit, which examines both the effectiveness and adequacy of the 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 Risk measurement and reporting systems**

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

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



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### 4.1.3 Risk mitigation

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

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

### 4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: financial assets at fair value through other comprehensive income (FVTOCI) (2018: available for sale (AFS)), financial assets at amortized cost (2018: loans and receivables). The financial liabilities are classified into other liabilities at amortised cost.

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

#### Group

| 30 June 2019  | Notes | FVOCI         | Amortized Cost    | Total             |
|---|-------|---------------|-------------------|-------------------|
|   |       | Birr'000      | Birr'000          | Birr'000          |
| Cash and bank balances  | 14    |               | 7,604,457         | 7,604,457         |
| Loans and advances to customers (net)                                       | 15    |               | 40,248,990        | 40,248,990        |
| Investment securities:  |       |               |                   |                   |
| - Financial assets measured at FVOCI (2018: AFS)                            | 16    | 25,390        |                   | 25,390            |
| - Financial assets measured at amortized cost (2018: Loans and receivables) | 16    |               | 31,038,403        | 31,038,403        |
| Other assets  | 18    |               | 1,699,627         | 1,699,627         |
| <b>Total financial assets</b>   |       | <b>25,390</b> | <b>80,591,477</b> | <b>80,616,867</b> |

#### Bank

| 30 June 2019  | Notes | FVOCI         | Amortized Cost    | Total             |
|---|-------|---------------|-------------------|-------------------|
|   |       | Birr'000      | Birr'000          | Birr'000          |
| Cash and bank balances  | 14    |               | 7,596,055         | 7,596,055         |
| Loans and advances to customers   | 15    |               | 40,248,990        | 40,248,990        |
| Investment securities:  |       |               |                   |                   |
| - Financial assets measured at FVOCI (2018: AFS)                            | 16    | 25,390        |                   | 25,390            |
| - Financial assets measured at amortized cost (2018: Loans and receivables) | 16    |               | 31,039,955        | 31,039,955        |
| Other assets  | 18    |               | 1,698,742         | 1,698,742         |
| <b>Total financial assets</b>   |       | <b>25,390</b> | <b>80,583,741</b> | <b>80,609,131</b> |

#### Group

| 30 June 2018                    | Notes | Available-for-Sale | Loans and receivables | Total             |
|---------------------------------|-------|--------------------|-----------------------|-------------------|
|                                 |       | Birr'000           | Birr'000              | Birr'000          |
| 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         |
| <b>Total financial assets</b>   |       | <b>11,376</b>      | <b>70,128,553</b>     | <b>70,139,929</b> |



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| Bank<br>30 June 2018            | Notes | Available-<br>for-Sale<br>Birr'000 | Loans and<br>receivables<br>Birr'000 | Total<br>Birr'000 |
|---------------------------------|-------|------------------------------------|--------------------------------------|-------------------|
| 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         |
| <b>Total financial assets</b>   |       | <b>11,376</b>                      | <b>70,118,940</b>                    | <b>70,130,316</b> |

**4.3 Credit risk**

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

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

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

The National Bank of Ethiopia (NBE) sets credit risk limit for a single borrower, one related party and all related parties to not exceed 25%, 5% and 35% of Bank's total capital amount, respectively.

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

**4.3.1 Management of credit risk**

In measuring credit risk of financial assets at amortized cost to various counterparties, the Bank considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counterparty/obligor and its likely future developments, credit history of the counterparty/obligor, and the likely recovery ratio in case of default obligations in terms of value of collateral and other way-out. The Bank's policy is to lend principally on the basis of our customer'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 as a last resort, in case the worst scenario occurs.

**4.3.2 Credit related commitment risks**

The Bank holds collateral against loans and advances to customers in the form of bank property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of lending, and are subsequently updated/reviewed at every three years unless a loan falls into non-performing/impaired status (stage 3).

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

**(a) Probability of Default (PD)**

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

**(b) Loss Given Default (LGD)**

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



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**(c) Exposure at Default (EAD)**

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

**4.3.3 Credit risk exposure**

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

The table below shows the Group's and Bank's maximum exposure to credit risk which is represented by the net carrying amounts in the statement of financial position and the fair value of collateral and credit enhancements held as at 30 June 2019 and 30 June 2018 respectively is shown as follows:

| Group<br>30 June 2019   | Fair value of collateral/security and credit enhancements held |                      |                             |   | Total<br>Birr'000 |
|---|--|----------------------|-----------------------------|---|-------------------|
|   | Maximum exposure to credit risk<br>Birr'000                    | Property<br>Birr'000 | Bank guarantees<br>Birr'000 | Others (including L/C Margin)<br>Birr'000 |                   |
| Cash and bank balances  | 7,604,457  |                      |                             |   |                   |
| Loans and advances to customers   | 40,248,990   | 27,098,613           | 241,888                     | 2,867,827                                 | 30,208,327        |
| Investment securities:  |  |                      |                             |   |                   |
| - Financial assets measured at FVOCI (2018: Available for sale)             | 25,390   |                      |                             |   |                   |
| - Financial assets measured at amortized cost (2018: Loans and receivables) | 31,038,403   |                      |                             |   |                   |
| Other assets  | 1,699,627  |                      |                             |   |                   |
|   | <b>80,616,867</b>  | <b>27,098,613</b>    | <b>241,888</b>              | <b>2,867,827</b>                          | <b>30,208,327</b> |
| Credit exposures relating to off-Loan commitments                           | 11,342,154   |                      |                             |   |                   |
| Letters of credit   | 3,484,065  |                      |                             | 1,593,493                                 | 1,593,493         |
| Guarantees  | 62,215   |                      |                             |   |                   |
|   | <b>14,888,434</b>  |                      |                             | <b>1,593,493</b>                          | <b>1,593,493</b>  |
| <b>Total maximum exposure</b>   | <b>95,505,301</b>  | <b>27,098,613</b>    | <b>241,888</b>              | <b>4,461,319</b>                          | <b>31,801,820</b> |
| <b>Bank<br/>30 June 2019</b>  |  |                      |                             |   |                   |
| Cash and bank balances  | 7,595,676  |                      |                             |   |                   |
| Loans and advances to customers   | 40,248,990   | 27,098,613           | 241,888                     | 2,867,827                                 | 30,208,327        |
| Investment securities:  |  |                      |                             |   |                   |
| - Financial assets measured at FVOCI (2018: Available for sale)             | 25,390   |                      |                             |   |                   |
| - Financial assets measured at amortized cost (2018: Loans and receivables) | 31,038,403   |                      |                             |   |                   |
| Other assets  | 1,698,742  |                      |                             |   |                   |
|   | <b>80,607,201</b>  | <b>27,098,613</b>    | <b>241,888</b>              | <b>2,867,827</b>                          | <b>30,208,327</b> |
| Credit exposures relating to off-Loan commitments                           | 11,342,154   |                      |                             |   |                   |
| Letters of credit   | 3,484,065  |                      |                             | 1,593,493                                 | 1,593,493         |
| Guarantees  | 62,215   |                      |                             |   |                   |
|   | <b>14,888,434</b>  |                      |                             | <b>1,593,493</b>                          | <b>1,593,493</b>  |
| <b>Total maximum exposure</b>   | <b>95,495,635</b>  | <b>27,098,613</b>    | <b>241,888</b>              | <b>4,461,319</b>                          | <b>31,801,820</b> |



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| Group   | Maximum exposure to credit risk<br>Birr'000 | Fair value of collateral/security and credit enhancements held |                             |   | Total<br>Birr'000 |
|---|---|--|-----------------------------|---|-------------------|
|   |   | Property<br>Birr'000   | Bank guarantees<br>Birr'000 | Others (including L/C Margin)<br>Birr'000 |                   |
| <b>30 June 2018</b>                                   |   |  |                             |   |                   |
| Cash and bank balances                                | 6,983,531                                   |  |                             |   |                   |
| Loans and advances to customers                       | 29,414,327                                  | 20,962,714   | 158,384                     | 1,344,132                                 | 22,465,230        |
| Investment securities:                                |   |  |                             |   |                   |
| - Available for sale                                  | 11,376                                      |  |                             |   |                   |
| - Loans and receivables                               | 31,624,349                                  |  |                             |   |                   |
| Other assets  | 2,106,346                                   |  |                             |   |                   |
|   | <b>70,139,928</b>                           | <b>20,962,714</b>  | <b>158,384</b>              | <b>1,344,132</b>                          | <b>22,465,230</b> |
| 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                                      |  |                             |   |                   |
|   | <b>25,038,901</b>                           |  |                             | <b>1,482,377</b>                          | <b>1,482,377</b>  |
| <b>Total maximum exposure</b>                         | <b>95,178,830</b>                           | <b>20,962,714</b>  | <b>158,384</b>              | <b>2,826,509</b>                          | <b>23,947,607</b> |
| <b>Bank</b>   |   |  |                             |   |                   |
| <b>30 June 2018</b>                                   |   |  |                             |   |                   |
| Cash and bank balances                                | 6,973,920                                   |  |                             |   |                   |
| Loans and advances to customers                       | 29,414,327                                  | 20,962,714   | 158,384                     | 1,344,132                                 | 22,465,230        |
| Investment securities:                                |   |  |                             |   |                   |
| - Available for sale                                  | 11,376                                      |  |                             |   |                   |
| - Loans and receivables                               | 31,624,349                                  |  |                             |   |                   |
| Other assets  | 2,106,344                                   |  |                             |   |                   |
|   | <b>70,130,316</b>                           | <b>20,962,714</b>  | <b>158,384</b>              | <b>1,344,132</b>                          | <b>22,465,230</b> |
| 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                                      |  |                             |   |                   |
|   | <b>25,038,901</b>                           |  |                             | <b>1,482,377</b>                          | <b>1,482,377</b>  |
| <b>Total maximum exposure</b>                         | <b>95,169,218</b>                           | <b>20,962,714</b>  | <b>158,384</b>              | <b>2,826,509</b>                          | <b>23,947,607</b> |

## (b) Assets obtained by taking possession of collateral

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

|                         | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Buildings               | 786,147                           | 786,147                          | 789,653                           | 789,653                          |
| Equipment and machinery | 784,621                           | 784,621                          | 788,121                           | 788,121                          |
| Motor vehicles          | 228,664                           | 228,664                          | 229,684                           | 229,684                          |
|                         | <b>1,799,433</b>                  | <b>1,799,433</b>                 | <b>1,807,458</b>                  | <b>1,807,458</b>                 |

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.



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## 4.3.4 Loans and advances to customers at amortised cost

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

|                   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Agriculture       | 8,048,752                         | 8,048,752                        | 7,504,406                         | 7,504,406                        |
| Manufacturing     | 32,135,804                        | 32,135,804                       | 27,183,741                        | 27,183,741                       |
| Mining and energy | 879,128                           | 879,128                          | 759,915                           | 759,915                          |
| Service           | 394,109                           | 394,109                          | 401,353                           | 401,353                          |
| Lease services    | 4,255,718                         | 4,255,718                        | 1,792,375                         | 1,792,375                        |
| Micro-financing   | 4,196,959                         | 4,196,959                        | 3,326,634                         | 3,326,634                        |
| Working capital   | 1,242,078                         | 1,242,078                        |                                   |                                  |
| Consumer (staff)  | 267,326                           | 267,326                          | 257,387                           | 257,387                          |
|                   | <b>51,419,875</b>                 | <b>51,419,875</b>                | <b>41,225,811</b>                 | <b>41,225,811</b>                |

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

|                 | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-----------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Pass            | 29,631,670                        | 29,631,670                       | 13,133,505                        | 13,133,505                       |
| Special mention | 7,285,096                         | 7,285,096                        | 10,328,890                        | 10,328,890                       |
| Substandard     | 1,691,783                         | 1,691,783                        | 9,766,696                         | 9,766,696                        |
| Doubtful        | 7,685,169                         | 7,685,169                        | 6,029,235                         | 6,029,235                        |
| Loss            | 5,126,156                         | 5,126,156                        | 1,967,485                         | 1,967,485                        |
|                 | <b>51,419,875</b>                 | <b>51,419,875</b>                | <b>41,225,811</b>                 | <b>41,225,811</b>                |

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

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

## 4.3.5 Credit quality analysis

(a) Credit quality of cash and bank balances

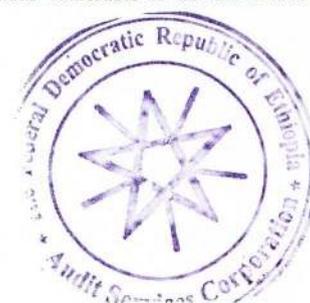
The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired as at 30 June 2019 and 30 June 2018 which are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. However, cash and bank balances that held in foreign banks can be assessed by reference to credit rating agency designation as shown in the table below:

|           | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-----------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| A         | -                                 | -                                | -                                 | -                                |
| BBB+      | 3,607,637                         | 3,607,637                        | 2,581,228                         | 2,581,228                        |
| Not rated | 3,997,199                         | 3,988,418                        | 4,402,303                         | 4,392,692                        |
|           | <b>7,604,836</b>                  | <b>7,596,055</b>                 | <b>6,983,531</b>                  | <b>6,973,920</b>                 |

### 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.



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

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

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

### (b) Credit quality of loans and advances to customers

The following table sets out information about the credit quality of financial assets measured at amortised cost (2018: loans and receivables) and equity investments at fair value through other comprehensive income (2018: available-for-sale equity investments). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.3 of accounting policy.

| In Birr'000   | 2,019             |                  |                   |                   | 2018              |
|---|-------------------|------------------|-------------------|-------------------|-------------------|
|   | Stage 1           | Stage 2          | Stage 3           | Total             | Total             |
| <b>Loans and advances to customers measured at amortised cost</b> |                   |                  |                   |                   |                   |
| Stage 1 – Pass  | 29,631,670        |                  |                   | 29,631,670        | 13,133,505        |
| Stage 2 – Special mention   |                   | 7,285,096        |                   | 7,285,096         | 10,328,890        |
| Stage 3 – Non-performing  |                   |                  | 14,503,109        | 14,503,109        | 17,763,416        |
| <b>Total gross exposure</b>                                       | <b>29,631,670</b> | <b>7,285,096</b> | <b>14,503,109</b> | <b>51,419,875</b> | <b>41,225,811</b> |
| Loss allowance  | (393,215)         | (471,821)        | (10,305,850)      | (11,170,885)      | (11,811,484)      |
| <b>Net carrying amount</b>  | <b>29,238,456</b> | <b>6,813,275</b> | <b>4,197,259</b>  | <b>40,248,990</b> | <b>29,414,327</b> |

### (C) Credit quality of other financial assets

|  | In Birr '000      |                 |                     |
|--|-------------------|-----------------|---------------------|
|  | 2,019             |                 | Net carrying amount |
| Gross exposure                                   | Loss allowance    |                 |                     |
| <b>Other financial assets (debt instruments)</b> |                   |                 |                     |
| Cash and balances with banks                     | 7,596,055         | (378)           | 7,595,676           |
| Investment securities (debt instruments)         | 31,065,345        | (1,552)         | 31,063,793          |
| Other receivables and financial assets           | 1,749,992         | (51,250)        | 1,698,742           |
| <b>Total</b>                                     | <b>40,411,391</b> | <b>(53,180)</b> | <b>40,358,211</b>   |

|  | In Birr '000      |                 |                     |
|--|-------------------|-----------------|---------------------|
|  | 2,018             |                 | Net carrying amount |
| Gross exposure                                   | Loss allowance    |                 |                     |
| <b>Other financial assets (debt instruments)</b> |                   |                 |                     |
| Cash and cash equivalents                        | 6,973,920         |                 | 6,973,920           |
| Investment securities (debt instruments)         | 31,624,349        |                 | 31,624,349          |
| Other receivables and financial assets           | 2,643,117         | (10,817)        | 2,632,300           |
| <b>Total</b>                                     | <b>41,241,386</b> | <b>(10,817)</b> | <b>41,230,569</b>   |



# Development Bank of Ethiopia

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For the year ended 30 June 2019



(d) Credit quality analysis for loans and advances were carried out for comparative information under IFRS 9 and IAS 39.

| Group/Bank<br>30 June 2019            | Neither past<br>due nor<br>impaired<br>(Stage 1) | Past due but<br>not impaired<br>& impaired<br>(Stage 2 & 3) | Total             |
|---------------------------------------|--|---|-------------------|
|                                       | Birr'000   | Birr'000  | Birr'000          |
| Agriculture                           | 1,716,756  | 6,331,996   | 8,048,752         |
| Manufacturing                         | 18,683,385                                       | 13,452,419  | 32,135,804        |
| Mining and Energy                     | 762,628  | 116,500   | 879,128           |
| Service                               | 299,835  | 94,274  | 394,109           |
| Lease Services                        | 3,426,798  | 828,921   | 4,255,718         |
| Micro-Financing                       | 4,190,530  | 6,429   | 4,196,959         |
| Working Capital                       | 234,012  | 1,008,065   |                   |
| Consumer (staff)                      | 260,410  | 6,916   | 267,326           |
| <b>Gross</b>                          | <b>29,574,355</b>                                | <b>21,845,520</b>   | <b>51,419,875</b> |
| Less: Impairment allowance (note 15b) | (393,215)  | (10,777,671)  | (11,170,885)      |
| <b>Net</b>                            | <b>29,181,140</b>                                | <b>11,067,849</b>   | <b>40,248,990</b> |

| Bank<br>30 June 2019                  | Neither past<br>due nor<br>impaired | Past due but<br>not impaired | Total             |
|---------------------------------------|-------------------------------------|------------------------------|-------------------|
|                                       | Birr'000                            | Birr'000                     | Birr'000          |
| Agriculture                           | 1,716,756                           | 6,331,996                    | 8,048,752         |
| Manufacturing                         | 18,683,385                          | 13,452,419                   | 32,135,804        |
| Mining and Energy                     | 762,628                             | 116,500                      | 879,128           |
| Service                               | 299,835                             | 94,274                       | 394,109           |
| Lease Services                        | 3,426,798                           | 828,921                      | 4,255,718         |
| Micro-Financing                       | 4,190,530                           | 6,429                        | 4,196,959         |
| Working Capital                       | 234,012                             | 1,008,065                    | 1,242,078         |
| Consumer (staff)                      | 260,410                             | 6,916                        | 267,326           |
| <b>Gross</b>                          | <b>29,574,355</b>                   | <b>21,845,520</b>            | <b>51,419,875</b> |
| Less: Impairment allowance (note 15b) | (393,215)                           | (10,777,671)                 | (11,170,885)      |
| <b>Net</b>                            | <b>29,181,140</b>                   | <b>11,067,849</b>            | <b>40,248,990</b> |

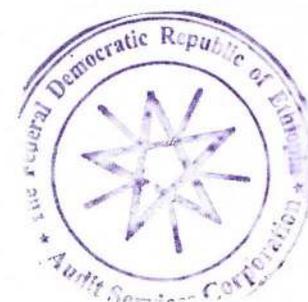
(i) Loans and advances - neither past due nor impaired (stage 1 - pass)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and 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<br>2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|---------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <i>Short-term loans</i>  |                           |                                  |                                   |                                  |
| Neither past due nor impaired  | 427,637                   | 427,637                          | 46,119                            | 46,119                           |
| <i>Medium and long term loans</i>                                      |                           |                                  |                                   |                                  |
| Neither past due nor impaired  | 29,146,718                | 29,146,718                       | 13,087,386                        | 13,087,386                       |
|  | <b>29,574,355</b>         | <b>29,574,355</b>                | <b>13,133,505</b>                 | <b>13,133,505</b>                |
| Less: Allowance for expected credit loss (2018: collective impairment) | (393,215)                 | (393,215)                        | (1,437,392)                       | (1,437,392)                      |
| <b>Net carrying Amount</b>   | <b>29,181,140</b>         | <b>29,181,140</b>                | <b>11,696,113</b>                 | <b>11,696,113</b>                |

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.



# Development Bank of Ethiopia

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(ii) *Loans and advances - past due but not impaired and impaired (stage 2 & 3 - special mention and non-performing)*

|                                   | Group<br>2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-----------------------------------|---------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>Short term loans</b>           |                           |                                  |                                   |                                  |
| Past due by 30 - 90 days          | 203,213                   | 203,213                          | 163,803                           | 163,803                          |
| Past due by 90 - 180 days         | 126,601                   | 126,601                          | 73,516                            | 73,516                           |
| Past due by 180-360 days          | 538,045                   | 538,045                          | 6,143                             | 6,143                            |
| Past due by more than 360 days    | 210,431                   | 210,431                          | 25,843                            | 25,843                           |
| <b>Medium and long term loans</b> |                           |                                  |                                   |                                  |
| Past due up to 6 - 12 months      | 7,081,883                 | 7,081,883                        | 10,165,088                        | 10,165,088                       |
| Past due up to 12 - 18months      | 1,565,196                 | 1,565,196                        | 3,267,114                         | 3,267,114                        |
| Past due up to 18 - to 3 years    | 7,147,111                 | 7,147,111                        | 3,921,332                         | 3,921,332                        |
| Past due by more than 3 years     | 4,972,763                 | 4,972,763                        | 1,941,642                         | 1,941,642                        |
|                                   | <b>21,845,243</b>         | <b>21,845,243</b>                | <b>19,564,481</b>                 | <b>19,564,481</b>                |
| Less: impairment allowance        | (10,777,671)              | (10,777,671)                     | (7,025,053)                       | (7,025,053)                      |
| <b>Loan and receivables (net)</b> | <b>11,067,572</b>         | <b>11,067,572</b>                | <b>12,539,428</b>                 | <b>12,539,428</b>                |



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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.

**(e) Credit quality of investment securities measured at amortized cost**

As at 30 June 2019 and 30 June 2018, all investment securities measured at amortized cost are neither past due nor impaired.

**(f) Investment securities designated at FVTPL**

As at 30 June 2019, the Bank had no exposure to credit risk of the investment securities designated as at FVTPL

**4.3.6 Nature of security in respect of loans and advances**

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

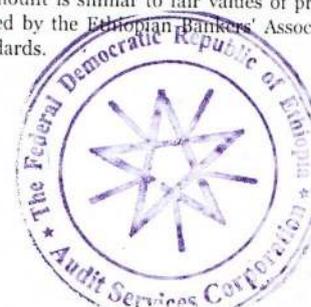
| Group/Bank          | Secured against real estate | Bank guarantees | Machinery and equipment | Motor vehicles   | Others           | Total             |
|---------------------|-----------------------------|-----------------|-------------------------|------------------|------------------|-------------------|
|                     | Birr'000                    | Birr'000        | Birr'000                | Birr'000         | Birr'000         | Birr'000          |
| <b>30 June 2019</b> |                             |                 |                         |                  |                  |                   |
| Agriculture         | 1,164,904                   | -               | 1,871,274               | 580,000          | 2,425,902        | 6,042,080         |
| Manufacturing       | 15,849,794                  | 112,610         | 25,510,726              | 1,151,235        | 1,996,186        | 44,620,552        |
| Mining and energy   | 135,562                     | 128,500         | 669,445                 | 24,104           | 153,897          | 1,111,508         |
| Service             | 1,141,022                   | -               | 136,689                 | 29,433           | 8,323            | 1,315,467         |
| Lease services      | 537,400                     | 778             | 3,063,877               | 129,509          | 34,443           | 3,766,006         |
| Micro-financing     | -                           | -               | 125,084                 | -                | -                | 125,084           |
| Consumer (staff)    | 335,260                     | -               | 55,961                  | 72,509           | 1,933            | 465,663           |
| Working capital     | 900,370                     | -               | 571,080                 | 44,607           | 380,621          | 1,896,679         |
|                     | <b>20,064,311</b>           | <b>241,888</b>  | <b>32,004,136</b>       | <b>2,031,398</b> | <b>5,001,305</b> | <b>59,343,038</b> |
| <b>30 June 2018</b> |                             |                 |                         |                  |                  |                   |
| 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           | 134              | 335,926           |
| Micro-financing     | -                           | -               | -                       | -                | 215,085          | 215,085           |
| Consumer (staff)    | 130,905                     | -               | -                       | 20,130           | 4,304            | 155,338           |
|                     | <b>7,911,793</b>            | <b>158,384</b>  | <b>12,157,759</b>       | <b>893,161</b>   | <b>1,344,133</b> | <b>22,465,231</b> |

**4.3.7 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 repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's main focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collateral held against all loans to customers. Guidelines are in place covering the acceptability and valuation of each type of collateral, including frequency of collateral valuation.

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





The 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.

#### 4.3.8 Amounts arising from ECL

##### i) Inputs, assumptions and techniques used for estimating impairment

##### ii) Significant increase in credit risk

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

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

- the remaining lifetime probability of default (PD) as at the reporting date;
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations);
- the Bank uses three criteria for determining whether there has been a significant increase in credit risk;
- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due for short term loans and 180 days for medium and long term loans, in line with regulatory requirements set by NBE for development banks in Ethiopia.

##### iii) Credit risk grades

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

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

##### a) Term loan exposures

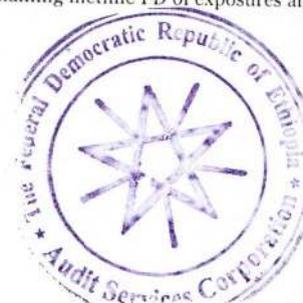
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance
- Data from credit reference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

##### b) Overdraft exposures

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

##### iv) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.





**v) Determining whether credit risk has increased significantly**

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month expected credit loss (ECL). Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime expected credit loss (ECL) are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

**vi) Definition of default**

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising
- the borrower is more than 90 days past due (short term loans) and more than 360 days (medium and long term loans) on any material credit obligation to the Bank, in line with regulatory requirements set by NBE for development banks in Ethiopia;
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than
- it is becoming probable that the bank will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its

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

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

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

**vii) Incorporation of forward-looking information**

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

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



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

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

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

The key drivers for credit risk for Bank is summarized below:

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

The economic scenarios used as at 30 June 2019 included the following key indicators for Ethiopia for the years 2019 to 2021:

| Macro-Economic factor                              | 2019  | 2020   | 2021  |
|--|-------|--------|-------|
| GDP: GDP per capita, USD                           | 836   | 928    | 1019  |
| GDP EXPENDITURE: Domestic Demand, USD per capita   | 929.3 | 1015.5 | 1098  |
| LABOUR FORCE: Unemployment, % of labour force, ave | 5.6   | 5.5    | 5.6   |
| EXCHANGE RATE: ETB/USD, ave                        | 29.23 | 31.1   | 33.15 |
| DEBT: Government domestic debt, ETBbn              | 642.7 | 752    | 872.3 |

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

### viii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of its remaining lifetime PD at the reporting date based on the modified terms with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

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

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

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



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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

### ix) Measurement of expected credit loss (ECL)

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

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

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

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

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

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

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

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

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

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

- instrument type;
- credit risk grading;
- collateral type;
- loan-to-value (LTV) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.



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

**x) Loss allowance**

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2018 represent the allowance account for credit losses and reflect the measurement basis under IAS 39, which are shown below the disclosures of IFRS 9.

| In Birr '000  | 2019           |                |                   |                   |
|---|----------------|----------------|-------------------|-------------------|
|   | Stage 1        | Stage 2        | Stage 3           | Total             |
| <b>Loans and advances to customers at amortised cost (on balance sheet exposures)</b> |                |                |                   |                   |
| Balance as at 1 July 2018 as per IAS 39   | 1,437,392      | 7,025,053      | 3,349,039         | 11,811,484        |
| Day one IFRS 9 transition adjustment  | (1,066,313)    | (6,407,862)    | 2,645,889         | (4,828,286)       |
| <b>Adjusted balance at 1 July 2018 as per IFRS 9</b>                                  | <b>371,079</b> | <b>617,190</b> | <b>5,994,928</b>  | <b>6,983,198</b>  |
| Transfer to stage 1 (12 months ECL)   | 1,377,996      | (353,164)      | (1,024,832)       |                   |
| Transfer to stage 2 (Lifetime ECL not credit impaired)                                | (59,600)       | 155,883        | (96,283)          |                   |
| Transfer to stage 3 (Lifetime ECL credit impaired)                                    | (97,253)       | (179,161)      | 276,414           |                   |
| Net remeasurement of loss allowance   | (1,233,166)    | 241,333        | 5,098,464         | 4,106,629         |
| New financial assets originated or purchased  | 66,932         | 13,871         | 291,886           | 372,690           |
| Financial assets derecognised   | (32,773)       | (24,131)       | (234,727)         | (291,632)         |
| <b>Balance as at 30 June 2019</b>   | <b>393,215</b> | <b>471,821</b> | <b>10,305,850</b> | <b>11,170,885</b> |

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

| In Birr '000   | 2019                         |  |  | Total        |
|--|------------------------------|--|--|--------------|
|  | Cash and balances with banks | Investment securities (debt instruments) | Other receivables and financial assets |              |
| <b>Other financial assets (debt instruments)</b>     |                              |  |  |              |
| Balance as at 1 July 2018 as per IAS 39              |                              |  | 10,817                                 | 10,817       |
| Day one IFRS 9 transition adjustment                 | 347                          | 1,581                                    | (10,696)                               | (8,767)      |
| <b>Adjusted balance at 1 July 2018 as per IFRS 9</b> | <b>347</b>                   | <b>1,581</b>                             | <b>121</b>                             | <b>2,050</b> |
| Net measurement of loss allowance                    | 31                           | (29)                                     |  | 2            |
| <b>Balance as at 30 June 2019</b>                    | <b>378</b>                   | <b>1,552</b>                             | <b>121</b>                             | <b>2,051</b> |



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The following table provides a reconciliation for 2019 between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.

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

Credit quality analysis for loans and advances to customers comparative information under IAS 39 summarized as follows:

(a) Credit quality of loans and advances to customers

| Group/Bank<br>30 June 2018            | Neither past due nor impaired | Past due but not impaired | Individually impaired | Total             |
|---------------------------------------|-------------------------------|---------------------------|-----------------------|-------------------|
|                                       | Birr'000                      | Birr'000                  | Birr'000              | Birr'000          |
| Agriculture                           | 1,631,765                     | 5,872,641                 |                       | 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                   |                       | 1,792,376         |
| Micro-Financing                       | 3,322,312                     | 4,322                     |                       | 3,326,634         |
| Individual loans                      | -                             | -                         | -                     | -                 |
| Consumer (staff)                      | 236,623                       | 20,764                    |                       | 257,387           |
| <b>Gross</b>                          | <b>13,133,505</b>             | <b>19,564,481</b>         | <b>8,527,826</b>      | <b>41,225,812</b> |
| Less: Impairment allowance (note 15b) | (1,437,392)                   | (7,025,053)               | (3,349,039)           | (11,811,484)      |
| <b>Net</b>                            | <b>11,696,113</b>             | <b>12,539,428</b>         | <b>5,178,787</b>      | <b>29,414,328</b> |

| Bank<br>30 June 2018                  | Neither past due nor impaired | Past due but not impaired | Individually impaired | Total             |
|---------------------------------------|-------------------------------|---------------------------|-----------------------|-------------------|
|                                       | Birr'000                      | Birr'000                  | Birr'000              | Birr'000          |
| Agriculture                           | 1,631,765                     | 5,872,641                 |                       | 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                   |                       | 1,792,376         |
| Micro-Financing                       | 3,322,312                     | 4,322                     |                       | 3,326,634         |
| Individual loans                      | -                             | -                         | -                     | -                 |
| Consumer (staff)                      | 236,623                       | 20,764                    |                       | 257,387           |
| <b>Gross</b>                          | <b>13,133,505</b>             | <b>19,564,481</b>         | <b>8,527,826</b>      | <b>41,225,812</b> |
| Less: Impairment allowance (note 15b) | (1,437,392)                   | (7,025,053)               | (3,349,039)           | (11,811,484)      |
| <b>Net</b>                            | <b>11,696,113</b>             | <b>12,539,428</b>         | <b>5,178,787</b>      | <b>29,414,328</b> |



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For the year ended 30 June 2018, 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 advances - neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and 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<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-----------------------------------|-----------------------------------|----------------------------------|
| <b>Short-term loans</b>           |                                   |                                  |
| Neither past due nor impaired     | 46,119                            | 46,119                           |
| <b>Medium and long term loans</b> |                                   |                                  |
| Neither past due nor impaired     | 13,087,386                        | 13,087,386                       |
| Less: collective impairment       | <u>13,133,505</u>                 | <u>13,133,505</u>                |
|                                   | (1,437,392)                       | (1,437,392)                      |
| <b>Net carrying amount</b>        | <u>11,696,113</u>                 | <u>11,696,113</u>                |

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 advances - past due but not impaired and impaired

|                                   | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-----------------------------------|-----------------------------------|----------------------------------|
| <b>Short term loans</b>           |                                   |                                  |
| Past due by 30 - 90 days          | 163,803                           | 163,803                          |
| Past due by 90 - 180 days         | 73,516                            | 73,516                           |
| Past due by 180-360 days          | 6,143                             | 6,143                            |
| Past due by more than 360 days    | 25,843                            | 25,843                           |
| <b>Medium and long term loans</b> |                                   |                                  |
| Past due up to 6 - 12 months      | 10,165,088                        | 10,165,088                       |
| Past due up to 12 - 18 months     | 3,267,114                         | 3,267,114                        |
| Past due up to 18 - to 3 years    | 3,921,332                         | 3,921,332                        |
| Past due by more than 3 years     | 1,941,642                         | 1,941,642                        |
|                                   | <u>19,564,481</u>                 | <u>19,564,481</u>                |
| Less: impairment allowance        | (7,025,053)                       | (7,025,053)                      |
| <b>Loan and receivables (net)</b> | <u>12,539,428</u>                 | <u>12,539,428</u>                |

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.



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**(iii) Loans and receivables - individually impaired loans**

|                           | <b>Group</b><br><b>30 June 2018</b><br><b>Birr'000</b> | <b>Bank</b><br><b>30 June 2018</b><br><b>Birr'000</b> |
|---------------------------|--|---|
| Substandard               | 6,426,066  | 6,426,066   |
| Doubtful                  | 2,101,760  | 2,101,760   |
| Loss                      | -  | -   |
|                           | <b>8,527,826</b>                                       | <b>8,527,826</b>                                      |
| Less: specific impairment | <u>(3,349,039)</u>                                     | <u>(3,349,039)</u>                                    |
|                           | <b>5,178,787</b>                                       | <b>5,178,787</b>                                      |

**(iv) Allowance for impairment**

|                                       | <b>Group</b><br><b>30 June 2018</b><br><b>Birr'000</b> | <b>Bank</b><br><b>30 June 2018</b><br><b>Birr'000</b> |
|---------------------------------------|--|---|
| Specific impairment                   | 3,349,039  | 3,349,039   |
| Collective impairment                 | 8,462,445  | 8,462,445   |
| <b>Total allowance for impairment</b> | <b>11,811,484</b>                                      | <b>11,811,484</b>                                     |

**v) 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.

**(vi) 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.



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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 :

| <b>Group/Bank<br/>30 June 2018</b> | <b>Current year<br/>Birr'000</b> | <b>Scenario 1<br/>Birr'000</b> | <b>Scenario 2<br/>Birr'000</b> |
|------------------------------------|----------------------------------|--------------------------------|--------------------------------|
| Agriculture                        | 3,402,811                        | 3,488,666                      | 4,083,374                      |
| Manufacturing                      | 4,227,196                        | 4,734,651                      | 5,072,636                      |
| Mining and Energy                  | 116,761                          | 135,543                        | 140,113                        |
| Service                            | 397,719                          | 403,845                        | 477,262                        |
| Lease Services                     | 300,713                          | 321,028                        | 360,856                        |
| Micro-Financing                    | 3,303                            | 3,626                          | 3,963                          |
| Consumer (staff)                   | 13,942                           | 15,250                         | 16,731                         |
|                                    | <b>8,462,445</b>                 | <b>9,102,608</b>               | <b>10,154,934</b>              |

**4.3.9 Statement of prudential adjustments**

- (a) Provisions under prudential guidelines are determined using the time/age based provisioning prescribed by the National bank of Ethiopia (NBE) Directive. This is at variance with the expected credit loss (adjusted with forward looking) model required by IFRS-9 (2019) and the incurred loss model required by IFRS under IAS 39 (2018). 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 resultant expected impact/changes should be treated in regulatory credit risk reserve, as follows:

When prudential provisions is greater than IFRS provision, the excess provisions should be transferred from retained earnings (general reserve) account to "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 thereafter reversed to retained earnings accounts to the extent of the excess prudential provisions which are previously recognized in regulatory credit risk reserve.

- (b) During the period ended June 30, 2019, there is no transferred amount to the regulatory credit risk reserve.

The impairment allowance determined under NBE Directive and IFRS 9 (2019) and IAS 39 (2018) is shown as follows:

|   | <b>Group<br/>30 June 2019<br/>Birr'000</b> | <b>Bank<br/>30 June 2019<br/>Birr'000</b> | <b>Group<br/>30 June 2018<br/>Birr'000</b> | <b>Bank<br/>30 June 2018<br/>Birr'000</b> |
|---|--|---|--|---|
| Total impairment allowance as per IFRS 9 (2018: IAS 39) | 11,822,801                                 | 11,822,801                                | 11,811,484                                 | 11,811,484                                |
| Total impairment allowance in line with NBE Directives  | 6,567,056                                  | 6,567,056                                 | 4,722,970                                  | 4,722,970                                 |
| <b>Difference (excess of IFRS over NBE)</b>             | <b>5,255,745</b>                           | <b>5,255,745</b>                          | <b>7,088,514</b>                           | <b>7,088,514</b>                          |



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(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 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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Suspended interest transferred to regulatory credit risk reserve | 2,646,281                         | 2,646,281                        | 2,120,377                         | 2,120,377                        |

**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 2019 and 30 June 2018 is shown below. The Bank concentrates all its financial assets in Ethiopia.

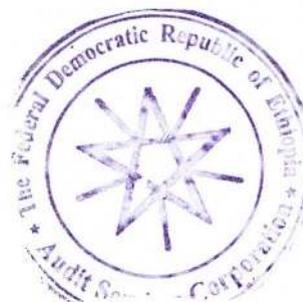
| Group<br>30 June 2019  | Agriculture<br>Birr'000 | Manufacturing<br>Birr'000 | Financial<br>Service<br>Birr'000 | others<br>Birr'000 | Total<br>Birr'000 |
|--|-------------------------|---------------------------|----------------------------------|--------------------|-------------------|
| Cash and bank balances   |                         |                           | 7,604,836                        |                    | 7,604,836         |
| Loans and advances to customers  | 8,048,752               | 32,135,804                | 4,196,959                        | 7,038,359          | 51,419,875        |
| Investment securities:   |                         |                           |                                  |                    |                   |
| - Financial assets measured at FVOCI (2018:<br>Available for sale)             |                         |                           | 25,390                           |                    | 25,390            |
| - Financial assets measured at amortized cost<br>(2018: Loans and receivables) |                         |                           | 31,039,955                       |                    | 31,039,955        |
| Other assets   |                         |                           |                                  | 1,750,877          | 1,750,877         |
|  | <b>8,048,752</b>        | <b>32,135,804</b>         | <b>42,867,140</b>                | <b>8,789,237</b>   | <b>91,840,933</b> |

| Bank<br>30 June 2019   | Agriculture<br>Birr'000 | Manufacturing<br>Birr'000 | Financial<br>Service<br>Birr'000 | others<br>Birr'000 | Total<br>Birr'000 |
|--|-------------------------|---------------------------|----------------------------------|--------------------|-------------------|
| Cash and bank balances   |                         |                           | 7,596,055                        |                    | 7,596,055         |
| Loans and advances to customers  | 8,048,752               | 32,135,804                | 4,196,959                        | 7,038,359          | 51,419,875        |
| Investment securities:   |                         |                           |                                  |                    |                   |
| - Financial assets measured at FVOCI (2018:<br>Available for sale)             |                         |                           | 25,390                           |                    | 25,390            |
| - Financial assets measured at amortized cost<br>(2018: Loans and receivables) |                         |                           | 31,039,955                       |                    | 31,039,955        |
| Other assets   |                         |                           |                                  | 1,749,992          | 1,749,992         |
|  | <b>8,048,752</b>        | <b>32,135,804</b>         | <b>42,858,359</b>                | <b>8,788,351</b>   | <b>91,831,266</b> |

| Group<br>30 June 2018  | Agriculture<br>Birr'000 | Manufacturing<br>Birr'000 | Financial<br>Service<br>Birr'000 | others<br>Birr'000 | Total<br>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 (2019: Financial<br>asset measured at FVOCI)              |                         |                           | 11,376                           |                    | 11,376            |
| - Loans and receivables (2019: Financial assets<br>measured at amortized cost) |                         |                           | 31,624,349                       |                    | 31,624,349        |
| Other assets   |                         |                           |                                  | 2,117,163          | 2,117,163         |
|  | <b>7,504,406</b>        | <b>27,183,741</b>         | <b>41,945,890</b>                | <b>5,328,193</b>   | <b>81,962,229</b> |



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| Bank<br>30 June 2018  | Agriculture      | Manufacturing     | Financial<br>Service | others           | Total             |
|---|------------------|-------------------|----------------------|------------------|-------------------|
|   | Birr'000         | Birr'000          | Birr'000             | Birr'000         | 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 (2019: Financial asset measured at FVOCI)              |                  |                   | 11,376               |                  | 11,376            |
| - Loans and receivables (2019: Financial assets measured at amortized cost) |                  |                   |                      |                  |                   |
| Other assets  |                  |                   | 31,624,349           |                  | 31,624,349        |
|   |                  |                   |                      | 2,117,161.36     | 2,117,161         |
|   | <b>7,504,406</b> | <b>27,183,741</b> | <b>41,936,279</b>    | <b>5,328,192</b> | <b>81,952,617</b> |

**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<br>30 June 2019 | Bank<br>30 June 2019 | Group<br>30 June 2018 | Bank<br>30 June 2018 |
|-------------------------------|-----------------------|----------------------|-----------------------|----------------------|
|                               | Birr'000              | Birr'000             | Birr'000              | Birr'000             |
| Letters of credit             |                       |                      |                       |                      |
| Guarantees                    | 3,597,827             | 3,597,827            | 5,041,503             | 5,041,503            |
| Loan commitments              | 62,215                | 62,215               | 394,819               | 394,819              |
|                               | 11,342,154            | 11,342,154           | 20,189,855            | 20,189,855           |
| <b>Total maximum exposure</b> | <b>15,002,196</b>     | <b>15,002,196</b>    | <b>25,626,177</b>     | <b>25,626,177</b>    |

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

**4.4.1 Management of liquidity risk**

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

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.



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### 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<br>30 June 2019              | 0 - 30<br>days   | 31 - 90<br>days  | 91 - 180<br>days | 181 - 365 days   | Over 1<br>year    |
|------------------------------------|------------------|------------------|------------------|------------------|-------------------|
|                                    | Birr'000         | Birr'000         | Birr'000         | Birr'000         | Birr'000          |
| Deposits from customers            | 240,205          | 160,137          | 160,137          | 160,137          | 80,068            |
| Debt securities issued             | 223,000          | 446,000          | 669,000          | 892,000          | 7,570,005         |
| Borrowings                         | 4,083,948        | 74,222           | 398,095          | 1,454,639        | 56,304,729        |
| Other liabilities                  | 436,326          | 654,489          | 872,652          | 1,090,815        | 1,308,978         |
| <b>Total financial liabilities</b> | <b>4,983,479</b> | <b>1,334,848</b> | <b>2,099,884</b> | <b>3,597,591</b> | <b>65,263,781</b> |
| Letters of credit                  | 179,891          | 539,674          | 1,079,348        | 1,439,131        | 359,783           |
| Guarantees issued                  | 6,222            | 12,443           | 18,665           | 24,886           | -                 |
| Loan commitments                   | 378,072          | 756,144          | 1,512,287        | 1,134,215        | 7,561,436         |
| Other commitments                  | 3,518            | 7,036            | 10,554           | 14,072           | -                 |
| <b>Total commitments</b>           | <b>567,703</b>   | <b>1,315,296</b> | <b>2,620,854</b> | <b>2,612,304</b> | <b>7,921,219</b>  |
| <b>Bank<br/>30 June 2019</b>       |                  |                  |                  |                  |                   |
| Deposits from customers            | 240,205          | 160,137          | 160,137          | 160,137          | 80,068            |
| Debt securities issued             | 223,000          | 446,000          | 669,000          | 892,000          | 7,570,005         |
| Borrowings                         | 4,083,948        | 74,222           | 398,095          | 1,454,639        | 56,304,729        |
| Other liabilities                  | 436,312          | 654,468          | 872,624          | 1,090,780        | 1,308,935         |
| <b>Total financial liabilities</b> | <b>4,983,465</b> | <b>1,334,827</b> | <b>2,099,856</b> | <b>3,597,555</b> | <b>65,263,738</b> |
| Letters of credit                  | 179,891          | 539,674          | 1,079,348        | 1,439,131        | 359,783           |
| Guarantees issued                  | 6,222            | 12,443           | 18,665           | 24,886           | -                 |
| Loan commitments                   | 378,072          | 756,144          | 1,512,287        | 1,134,215        | 7,561,436         |
| Other commitments                  | 3,518            | 7,036            | 10,554           | 14,072           | -                 |
| <b>Total commitments</b>           | <b>567,703</b>   | <b>1,315,296</b> | <b>2,620,854</b> | <b>2,612,304</b> | <b>7,921,219</b>  |
| <b>Group<br/>30 June 2018</b>      |                  |                  |                  |                  |                   |
| 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        | 50,357,210        |
| Other liabilities                  | 399,446          | 599,133          | 798,845          | 998,556          | 1,198,267         |
| <b>Total financial liabilities</b> | <b>1,212,522</b> | <b>1,554,435</b> | <b>1,411,142</b> | <b>4,853,135</b> | <b>61,113,178</b> |
| 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           | -                 |
| <b>Total commitments</b>           | <b>959,993</b>   | <b>2,159,217</b> | <b>4,270,667</b> | <b>4,123,901</b> | <b>14,195,239</b> |



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| Bank<br>30 June 2018               | 0 - 30<br>days<br>Birr'000 | 31 - 90<br>days<br>Birr'000 | 91 - 180<br>days<br>Birr'000 | 181 - 365 days<br>Birr'000 | Over 1<br>year<br>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                  | 50,357,210                 |
| Profit tax payable                 |                            | 276,498                     |                              |                            |                            |
| Other liabilities                  | 399,422                    | 599,133                     | 798,845                      | 998,556                    | 1,198,267                  |
| <b>Total financial liabilities</b> | <b>1,212,499</b>           | <b>1,830,933</b>            | <b>1,411,142</b>             | <b>4,853,135</b>           | <b>61,113,178</b>          |
| 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                     |                            |
| <b>Total commitments</b>           | <b>959,993</b>             | <b>2,159,217</b>            | <b>4,270,667</b>             | <b>4,123,901</b>           | <b>14,195,239</b>          |

**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.

**(i) Interest rate risk**

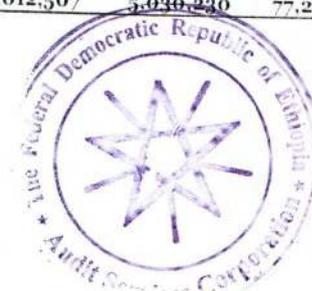
Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings and lendings obtained and granted at variable rates give rise to interest rate risk.

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

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

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

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



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| <b>Bank</b><br><b>30 June 2019</b>  | <b>Fixed</b><br><b>Birr'000</b> | <b>Floating</b><br><b>Birr'000</b> | <b>Non-interest</b><br><b>bearing</b><br><b>Birr'000</b> | <b>Total</b><br><b>Birr'000</b> |
|-------------------------------------|---------------------------------|------------------------------------|--|---------------------------------|
| <b>Assets</b>                       |                                 |                                    |  |                                 |
| Cash and balances with banks        |                                 |                                    |  |                                 |
| Loans and advances to customers     | 3,607,637                       |                                    | 3,988,418  | 7,596,055                       |
| Investment securities               | 51,419,875                      |                                    |  | 51,419,875                      |
| Other assets                        | 29,231,981                      |                                    | 1,833,364  | 31,065,345                      |
| <b>Total</b>                        | <b>84,259,492</b>               |                                    | <b>7,571,774</b>   | <b>91,831,266</b>               |
| <b>Liabilities</b>                  |                                 |                                    |  |                                 |
| Deposits from customers             |                                 |                                    |  |                                 |
| Debt securities issued              | 123,870                         |                                    | 676,813  | 800,683                         |
| Borrowings                          | 9,800,005                       |                                    |  | 9,800,005                       |
| Other liabilities                   | 61,303,127                      | 1,012,507                          |  | 62,315,634                      |
| <b>Total</b>                        | <b>71,227,002</b>               | <b>1,012,507</b>                   | <b>5,030,099</b>   | <b>77,269,608</b>               |
| <b>Group</b><br><b>30 June 2018</b> |                                 |                                    |  |                                 |
| <b>Assets</b>                       |                                 |                                    |  |                                 |
| Cash and balances with banks        |                                 |                                    |  |                                 |
| Loans and advances to customers     | 2,581,228                       |                                    | 4,402,303  | 6,983,531                       |
| Investment securities               | 41,225,811                      |                                    |  | 41,225,811                      |
| Other assets                        | 29,609,701                      |                                    | 2,026,023  | 31,635,725                      |
| <b>Total</b>                        | <b>73,416,740</b>               |                                    | <b>8,545,487</b>   | <b>81,962,228</b>               |
| <b>Liabilities</b>                  |                                 |                                    |  |                                 |
| Deposits from customers             |                                 |                                    |  |                                 |
| Debt securities issued              | 125,326                         |                                    | 987,609  | 1,112,935                       |
| Borrowings                          | 10,496,009                      |                                    |  | 10,496,009                      |
| Other liabilities                   | 53,378,528                      | 1,162,694                          |  | 54,541,222                      |
| <b>Total</b>                        | <b>63,999,862</b>               | <b>1,162,694</b>                   | <b>4,965,471</b>   | <b>70,128,028</b>               |
| <b>Bank</b><br><b>30 June 2018</b>  |                                 |                                    |  |                                 |
| <b>Assets</b>                       |                                 |                                    |  |                                 |
| Cash and balances with banks        |                                 |                                    |  |                                 |
| Loans and advances to customers     | 2,581,228                       |                                    | 4,392,692  | 6,973,920                       |
| Investment securities               | 41,225,811                      |                                    |  | 41,225,811                      |
| Other assets                        | 29,609,701                      |                                    | 2,026,023  | 31,635,725                      |
| <b>Total</b>                        | <b>73,416,740</b>               |                                    | <b>8,535,877</b>   | <b>81,952,617</b>               |
| <b>Liabilities</b>                  |                                 |                                    |  |                                 |
| Deposits from customers             |                                 |                                    |  |                                 |
| Debt securities issued              | 125,326                         |                                    | 987,609  | 1,112,935                       |
| Borrowings                          | 10,496,009                      |                                    |  | 10,496,009                      |
| Other liabilities                   | 53,378,528                      | 1,162,694                          |  | 54,541,222                      |
| <b>Total</b>                        | <b>63,999,862</b>               | <b>1,162,694</b>                   | <b>4,965,465</b>   | <b>70,128,022</b>               |



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The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 30 June 2019 and 30 June 2018.

|     | Increase/<br>(decrease) in<br>basis points | Group        | Bank         | Group        | Bank         |
|-----|--|--------------|--------------|--------------|--------------|
|     |  | 30 June 2019 | 30 June 2019 | 30 June 2018 | 30 June 2018 |
|     |  | Birr'000     | Birr'000     | Birr'000     | Birr'000     |
| USD | 10% (↑)                                    | (101,251)    | (101,251)    | (116,269)    | (116,269)    |
| USD | 10% (↓)                                    | 101,251      | 101,251      | 116,269      | 116,269      |

**(ii) Foreign exchange risk**

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 3.42 billion (30 June 2018: Birr 2.15 billion).

**Foreign currency denominated balances**

|                                      | Group            | Bank             | Group            | Bank             |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 30 June 2019     | 30 June 2019     | 30 June 2018     | 30 June 2018     |
|                                      | Birr'000         | Birr'000         | Birr'000         | Birr'000         |
| <b>Cash and bank balances</b>        | <b>4,756,501</b> | <b>4,756,501</b> | <b>3,824,488</b> | <b>3,824,488</b> |
| Deposits from customers              | 323,632          | 323,632          | 510,959          | 510,959          |
| Borrowings                           | 1,012,507        | 1,012,507        | 1,162,694        | 1,162,694        |
|                                      | <b>1,336,140</b> | <b>1,336,140</b> | <b>1,673,653</b> | <b>1,673,653</b> |
| <b>Net foreign currency exposure</b> | <b>3,420,361</b> | <b>3,420,361</b> | <b>2,150,835</b> | <b>2,150,835</b> |

**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/<br>(decrease)<br>in basis<br>points | Group        | Bank         | Group        | Bank         |
|-----|---|--------------|--------------|--------------|--------------|
|     |   | 30 June 2019 | 30 June 2019 | 30 June 2018 | 30 June 2018 |
|     |   | Birr'000     | Birr'000     | Birr'000     | Birr'000     |
| USD | 10% (↑)                                       | 297,095      | 297,095      | 182,397      | 182,397      |
| USD | 10% (↓)                                       | (297,095)    | (297,095)    | (182,397)    | (182,397)    |
| EUR | 10% (↑)                                       | 44,839       | 44,839       | 32,591       | 32,591       |
| EUR | 10% (↓)                                       | (44,839)     | (44,839)     | (32,591)     | (32,591)     |
| GBP | 10% (↑)                                       | 103          | 103          | 95           | 95           |
| GBP | 10% (↓)                                       | (103)        | (103)        | (95)         | (95)         |



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### 4.6 Capital management

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

#### 4.6.1 Capital adequacy ratio

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

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

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

|  | 30 June 2019      | 30 June 2018      |
|--|-------------------|-------------------|
|  | Birr'000          | Birr'000          |
| <b>Capital</b>                                   |                   |                   |
| Capital  | 7,500,000         | 7,500,000         |
| Retained earnings                                | (4,434,682)       | (7,231,355)       |
| Legal reserve                                    | 176,527           | 176,527           |
| Regulatory credit risk reserve                   | 2,488,509         | 2,120,377         |
| Other reserve                                    | (4,195)           | (8,471)           |
|  | <b>5,726,159</b>  | <b>2,557,078</b>  |
| <b>Risk weighted assets</b>                      |                   |                   |
| Risk weighted balance for on-balance sheet items | 46,255,977        | 35,907,163        |
| Credit equivalents for off-balance sheet items   | 4,526,228         | 7,760,506         |
|  | <b>50,782,205</b> | <b>43,667,668</b> |
| Risk-weighted capital adequacy ratio (CAR)       | 11%               | 6%                |
| Minimum required capital                         | 8%                | 8%                |
| Excess/(shortfall)                               | 3%                | -2%               |

### 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.

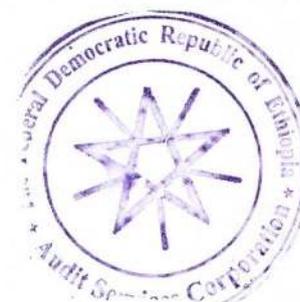
#### 4.7.1 Valuation models

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

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

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

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



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- 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 2019                                  | Birr'000          | Birr'000  | Birr'000 | Birr'000          | Birr'000          |
| <b>Financial assets</b>                       |                   |           |          |                   |                   |
| Cash and balances with banks                  | 7,604,457         |           |          | 7,604,457         | 7,604,457         |
| Loans and advances to customers               | 40,248,990        |           |          | 40,248,990        | 40,248,990        |
| Investment securities:                        |                   |           |          |                   |                   |
| - Financial assets measured at FVOCI          | 25,390            |           |          | 25,390            | 25,390            |
| - Financial assets measured at amortized cost | 31,038,403        |           |          | 31,038,403        | 31,038,403        |
| Other assets                                  | 1,699,627         |           |          | 1,699,627         | 1,699,627         |
| <b>Total</b>                                  | <b>80,616,867</b> |           |          | <b>80,616,867</b> | <b>80,616,867</b> |
| <b>Financial liabilities</b>                  |                   |           |          |                   |                   |
| Deposits from customers                       | 800,683           |           |          | 800,683           | 800,683           |
| Debt securities issued                        | 9,800,005         |           |          | 9,800,005         | 9,800,005         |
| Borrowings                                    | 62,315,634        |           |          | 62,315,634        | 62,315,634        |
| Other liabilities                             | 4,353,417         |           |          | 4,353,417         | 4,353,417         |
| <b>Total</b>                                  | <b>77,269,739</b> |           |          | <b>77,269,739</b> | <b>77,269,739</b> |
| <b>Bank</b>                                   |                   |           |          |                   |                   |
| 30 June 2019                                  | Carrying amount   | Level 1   | Level 2  | Level 3           | Total             |
|   | Birr'000          | Birr'000  | Birr'000 | Birr'000          | Birr'000          |
| <b>Financial assets</b>                       |                   |           |          |                   |                   |
| Cash and balances with banks                  | 7,595,676         | 7,595,676 |          |                   | 7,595,676         |
| Loans and advances to customers               | 40,248,990        |           |          | 40,248,990        | 40,248,990        |
| Investment securities:                        |                   |           |          |                   |                   |
| - Financial assets measured at FVOCI          | 25,390            |           |          | 25,390            | 25,390            |
| - Financial assets measured at amortized cost | 31,038,403        |           |          | 31,038,403        | 31,038,403        |
| Other assets                                  | 1,698,742         |           |          | 1,698,742         | 1,698,742         |
| <b>Total</b>                                  | <b>80,607,201</b> |           |          | <b>73,011,524</b> | <b>80,607,201</b> |
| <b>Financial liabilities</b>                  |                   |           |          |                   |                   |
| Deposits from customers                       | 800,683           |           |          | 800,683           | 800,683           |
| Debt securities issued                        | 9,800,005         |           |          | 9,800,005         | 9,800,005         |
| Borrowings                                    | 62,315,634        |           |          | 62,315,634        | 62,315,634        |
| Other liabilities                             | 4,353,286         |           |          | 4,353,286         | 4,353,286         |
| <b>Total</b>                                  | <b>77,269,608</b> |           |          | <b>77,269,608</b> | <b>77,269,608</b> |



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| Group                           | Carrying amount   | Level 1  | Level 2  | Level 3           | Total             |
|---------------------------------|-------------------|----------|----------|-------------------|-------------------|
| 30 June 2018                    | Birr'000          | Birr'000 | Birr'000 | Birr'000          | Birr'000          |
| <b>Financial assets</b>         |                   |          |          |                   |                   |
| 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            | 11,376            |          |          | 11,376            | 11,376            |
| - Loans and receivables         | 31,624,349        |          |          | 31,624,349        | 31,624,349        |
| Other assets                    | 2,106,346         |          |          | 2,106,346         | 2,106,346         |
| <b>Total</b>                    | <b>70,139,928</b> |          |          | <b>70,139,928</b> | <b>70,139,928</b> |
| <b>Financial liabilities</b>    |                   |          |          |                   |                   |
| 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               | 3,977,862         |          |          | 3,977,862         | 3,977,862         |
| <b>Total</b>                    | <b>70,128,028</b> |          |          | <b>70,128,028</b> | <b>70,128,028</b> |
| <b>Bank</b>                     |                   |          |          |                   |                   |
| 30 June 2018                    | Carrying amount   | Level 1  | Level 2  | Level 3           | Total             |
|                                 | Birr'000          | Birr'000 | Birr'000 | Birr'000          | Birr'000          |
| <b>Financial assets</b>         |                   |          |          |                   |                   |
| 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         |
| <b>Total</b>                    | <b>70,130,316</b> |          |          | <b>70,130,316</b> | <b>70,130,316</b> |
| <b>Financial liabilities</b>    |                   |          |          |                   |                   |
| 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               | 3,977,856         |          |          | 3,977,856         | 3,977,856         |
| <b>Total</b>                    | <b>70,128,022</b> |          |          | <b>70,128,022</b> | <b>70,128,022</b> |

### 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.



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### **4.7.4 Valuation technique using significant unobservable inputs – Level 3**

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

### **4.7.5 Transfers between the fair value hierarchy categories**

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

### **4.8 Offsetting financial assets and financial liabilities**

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



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For the year ended 30 June 2019



|  | Group<br>30 June 2019<br>Birr'000      | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|--|----------------------------------|-----------------------------------|----------------------------------|
| <b>5 Interest income</b>   |  |                                  |                                   |                                  |
| <b>Interest income calculated using the effective interest method</b>  |  |                                  |                                   |                                  |
| Interest on agriculture loans  | 1,103,874                              | 1,103,874                        | 1,167,647                         | 1,167,647                        |
| Interest on manufacturing loans  | 3,323,884                              | 3,323,884                        | 2,614,440                         | 2,614,440                        |
| Interest on mining and energy loans                                    | 58,259                                 | 58,259                           | 60,099                            | 60,099                           |
| Interest on service loans  | 66,015                                 | 66,015                           | 90,846                            | 90,846                           |
| Interest on lease services loans                                       | 26,692                                 | 26,692                           | 33,846                            | 33,846                           |
| Interest on micro-financing loans                                      | 160,375                                | 160,375                          | 135,319                           | 135,319                          |
| Interest on staff loans  | 47,776                                 | 47,776                           | 25,153                            | 25,153                           |
| Interest on investment securities                                      | 803,254                                | 803,254                          | 481,477                           | 481,477                          |
| Interest on deposit placement  | 172,382                                | 171,652                          | 73,953                            | 73,377                           |
| <b>Total interest income</b>   | <b>5,762,510</b>                       | <b>5,761,780</b>                 | <b>4,682,779</b>                  | <b>4,682,203</b>                 |
| <b>6 Interest expense</b>  |  |                                  |                                   |                                  |
| <b>Interest expense calculated using the effective interest method</b> |  |                                  |                                   |                                  |
| Interest on deposits   | 6,284                                  | 6,284                            | 6,485                             | 6,485                            |
| Interest on Ethiopian Government Saving Bonds                          | 635,872                                | 635,872                          | 561,569                           | 561,569                          |
| Interest on National Bank of Ethiopia borrowing                        | 1,572,320                              | 1,572,320                        | 900,431                           | 900,431                          |
| Interest on Ministry of Finance borrowing                              | 109,718                                | 109,718                          | 68,678                            | 68,678                           |
| Interest on China Development Bank borrowing                           | 65,913                                 | 65,913                           | 48,504                            | 48,504                           |
| Interest on leasehold land   | 219                                    | 219                              | 32                                | 32                               |
| <b>Total interest expense</b>  | <b>2,390,326</b>                       | <b>2,390,326</b>                 | <b>1,585,699</b>                  | <b>1,585,699</b>                 |
| <b>7 Net Fee and commission income</b>                                 |  |                                  |                                   |                                  |
| <b>7a Fee and commission income</b>                                    |  |                                  |                                   |                                  |
| Commission income on CPO and FT  | 21,385                                 | 21,385                           | 13,972                            | 13,972                           |
| Commission income on insurance   | 2,605                                  | 2,605                            | 3,165                             | 3,165                            |
| Commission on letters of credit  | 311,732                                | 311,732                          | 261,165                           | 261,165                          |
| Commission on managed funds  | 5,377                                  | 5,377                            | 22                                | 22                               |
|  | <b>341,100</b>                         | <b>341,100</b>                   | <b>278,323</b>                    | <b>278,323</b>                   |
| Fee and commission expense   | (2,757)                                | (2,757)                          | (2,780)                           | (2,780)                          |
| <b>Net fee and commission income</b>                                   | <b>338,343</b>                         | <b>338,343</b>                   | <b>275,544</b>                    | <b>275,544</b>                   |
| <b>7b Disaggregated revenue information</b>                            |  |                                  |                                   |                                  |
| <b>Group/Bank</b>  | <b>For the year ended 30 June 2019</b> |                                  |                                   |                                  |
| <b>Segments</b>  | <b>International<br/>banking</b>       | <b>Domestic<br/>banking</b>      | <b>Managed fund</b>               | <b>Total</b>                     |
| Net fee income earned from services that are provided over time        | -                                      | -                                | -                                 | -                                |
| Net fee income from providing financial services at a point in time:   |  |                                  |                                   |                                  |
| Fee and commission income on trade services (net)                      | 308,976                                |                                  |                                   | 308,976                          |
| Fee on fund transfer and transaction services (net)                    |  | 23,990                           |                                   | 23,990                           |
| Commission on managed fund (net)                                       |  |                                  | 5,377                             | 5,377                            |
|  | <b>308,976</b>                         | <b>23,990</b>                    | <b>5,377</b>                      | <b>338,343</b>                   |
| <b>Total net revenue from contracts with customers</b>                 | <b>308,976</b>                         | <b>23,990</b>                    | <b>5,377</b>                      | <b>338,343</b>                   |



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

|   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>8 Other operating income</b>                         |                                   |                                  |                                   |                                  |
| Rental income   | 17,728                            | 17,728                           | 17,798                            | 17,798                           |
| Gain on disposal of property, plant and equipment (net) | 1,202                             | 1,202                            | 2,964                             | 2,964                            |
| Gain on disposal of asset awaiting for resale (net)     | 8,393                             | 8,393                            | 1,379                             | 1,379                            |
| Penalty charge income                                   | 1,585                             | 1,585                            | 650                               | 650                              |
| Gain on foreign exchange                                | 242,019                           | 242,019                          | 59,497                            | 59,497                           |
| Other income  | 11,914                            | 11,914                           | 6,222                             | 6,222                            |
|   | <b>282,842</b>                    | <b>282,842</b>                   | <b>88,510</b>                     | <b>88,510</b>                    |
| <b>9 Loan impairment charge</b>                         |                                   |                                  |                                   |                                  |
| Loans and advances - charge for the year (note 15a)     | 4,187,688                         | 4,187,688                        | 4,412,448                         | 4,412,448                        |
|   | <b>4,187,688</b>                  | <b>4,187,688</b>                 | <b>4,412,448</b>                  | <b>4,412,448</b>                 |
| <b>10 Impairment losses on other assets</b>             |                                   |                                  |                                   |                                  |
| Other assets - charge for the year (note 18)            | 408,110                           | 408,110                          |                                   |                                  |
| Other assets - reversal of impairment losses (note 18)  |                                   |                                  | (68,059)                          | (68,059)                         |
|   | <b>408,110</b>                    | <b>408,110</b>                   | <b>(68,059)</b>                   | <b>(68,059)</b>                  |
| <b>11 Personnel expenses</b>                            |                                   |                                  |                                   |                                  |
| Salaries and wages                                      | 298,762                           | 298,139                          | 310,095                           | 309,614                          |
| Staff allowances  | 104,696                           | 104,696                          | 96,156                            | 96,156                           |
| Pension costs – defined contribution plan               | 29,397                            | 29,397                           | 25,984                            | 25,984                           |
| Pension costs – defined benefit plans                   | 4,153                             | 4,153                            | 2,701                             | 2,701                            |
| Other staff expenses                                    | 56,320                            | 56,320                           | 41,345                            | 41,345                           |
|   | <b>493,328</b>                    | <b>492,705</b>                   | <b>476,281</b>                    | <b>475,801</b>                   |
| <b>12 Other operating expenses</b>                      |                                   |                                  |                                   |                                  |
| Per diem and travel                                     | 26,390                            | 26,356                           | 25,008                            | 24,989                           |
| Fuel and lubricants                                     | 4,944                             | 4,944                            | 4,632                             | 4,632                            |
| Audit fees  | 877                               | 852                              | 1,395                             | 1,395                            |
| Repairs and maintenance                                 | 12,096                            | 12,094                           | 17,212                            | 17,194                           |
| Utility and communications                              | 8,790                             | 8,773                            | 15,289                            | 15,285                           |
| Printing and stationery                                 | 6,544                             | 6,540                            | 23,193                            | 23,186                           |
| Rent  | 25,658                            | 25,504                           | 26,553                            | 26,297                           |
| Subscription & publication                              | 679                               | 679                              | 2,398                             | 2,398                            |
| Donations and sponsorship                               | 10,538                            | 10,538                           | 101                               | 101                              |
| Entertainment   | 2,756                             | 2,756                            | 1,748                             | 1,748                            |
| Event organization                                      | 820                               | 820                              | 1,011                             | 1,011                            |
| Advertisement & publicity                               | 4,567                             | 4,567                            | 890                               | 884                              |
| Insurance   | 4,348                             | 4,348                            | 4,227                             | 4,227                            |
| License and professional fees                           | 25,725                            | 25,724                           | 58,261                            | 58,258                           |
| Commission for agents                                   | 5,794                             | 5,794                            | 7,776                             | 7,776                            |
| Board of management fees                                | 323                               | 323                              | 306                               | 306                              |
| Wages   | 4,509                             | 4,509                            | 5,045                             | 5,045                            |
| Security  | 28,653                            | 28,650                           | 17,981                            | 17,981                           |
| Administration expense on asset awaiting for resale     | 90,059                            | 90,059                           | 4,582                             | 4,582                            |
| Revaluation loss on asset awaiting for resale           | 43,547                            | 43,547                           |                                   |                                  |
| Miscellaneous   | 4,908                             | 4,904                            | 12,307                            | 12,295                           |
|   | <b>312,525</b>                    | <b>312,282</b>                   | <b>229,917</b>                    | <b>229,590</b>                   |



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|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>13 Current income tax and deferred tax</b>                            |                                   |                                  |                                   |                                  |
| <b>13a Income tax expense/(income)</b>                                   |                                   |                                  |                                   |                                  |
| <b>Tax expense</b>   |                                   |                                  |                                   |                                  |
| Current income tax   | 130,500                           | 130,500                          | 272,864                           | 272,933                          |
| Deferred income tax/(credit) to profit or loss                           | 50,779                            | 50,779                           | (70,304)                          | (70,304)                         |
| <b>Total charge to profit or loss</b>                                    | <b>181,279</b>                    | <b>181,279</b>                   | <b>202,560</b>                    | <b>202,629</b>                   |
| <b>Income tax charged/(credited) to other comprehensive income</b>       |                                   |                                  |                                   |                                  |
| Tax (credit) on other comprehensive income                               | (2,468)                           | (2,468)                          | 3,686                             | 3,686                            |
| <b>Total income tax charged/(credited) to other comprehensive income</b> | <b>(2,468)</b>                    | <b>(2,468)</b>                   | <b>3,686</b>                      | <b>3,686</b>                     |

### 13b Reconciliation of effective tax to statutory tax

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

|   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>Loss before tax as per IFRS</b>                          | (1,490,861)                       | (1,490,861)                      | (1,675,451)                       | (1,675,216)                      |
| <b>Loss before tax</b>                                      | <b>(1,490,861)</b>                | <b>(1,490,861)</b>               | <b>(1,675,451)</b>                | <b>(1,675,216)</b>               |
| <b>Tax calculated at statutory tax rate of 30%</b>          | <b>(447,258)</b>                  | <b>(447,258)</b>                 | <b>(502,635)</b>                  | <b>(502,565)</b>                 |
| <b>Add: Tax effect of disallowed expenses</b>               |                                   |                                  |                                   |                                  |
| Entertainment sponsorship                                   | 827                               | 827                              | 525                               | 525                              |
| Event organization  | 53                                | 53                               | 30                                | 30                               |
| Penalty   | 164                               | 164                              |                                   |                                  |
| Depreciation & amortization for                             | 90                                | 90                               | 5                                 | 3                                |
| Provision for loans & other assets as                       | 24,814                            | 24,814                           | 26,633                            | 26,632                           |
| Employee benefit expense (actuarial)                        | 1,378,739                         | 1,378,739                        | 1,324,241                         | 1,324,241                        |
|   | 1,246                             | 1,246                            | 4,496                             | 4,496                            |
|   | <b>1,405,934</b>                  | <b>1,405,934</b>                 | <b>1,355,929</b>                  | <b>1,355,926</b>                 |
| <b>Less: Tax effect of allowed expenses</b>                 |                                   |                                  |                                   |                                  |
| Depreciation for tax purposes                               | 15,439                            | 15,439                           | 15,518                            | 15,517                           |
| Provision for loans and advances for tax purpose (80%)      | 461,706                           | 461,706                          | 432,659                           | 432,659                          |
|   | <b>477,145</b>                    | <b>477,145</b>                   | <b>448,177</b>                    | <b>448,177</b>                   |
| <b>Less: Tax effect of income taxed at source or exempt</b> |                                   |                                  |                                   |                                  |
| Gain on foreign exchange due to                             |                                   |                                  | 6,675                             | 6,675                            |
| Interest on treasury bills                                  | 302,262                           | 302,262                          | 126,928                           | 126,928                          |
| Interest on foreign deposits                                | 18,611                            | 18,611                           | 12,018                            | 12,018                           |
| Interest on local deposits                                  | 32,885                            | 32,885                           | 9,996                             | 9,996                            |
| Dividend income   | 14                                | 14                               |                                   |                                  |
| Gain on disposal of property, plant & equipment (net)       | 361                               | 361                              | 880                               | 880                              |
|   | <b>354,132</b>                    | <b>354,132</b>                   | <b>156,506</b>                    | <b>156,506</b>                   |
| Income tax at 30%   | 127,399                           | 127,399                          | 248,611                           | 248,679                          |
| Tax on foreign deposit interest at 5%                       | 3,102                             | 3,102                            | 2,003                             | 2,003                            |
| Windfall tax on gain from foreign exchange at 100%          |                                   |                                  | 22,251                            | 22,251                           |
| <b>Current income tax expense</b>                           | <b>130,500</b>                    | <b>130,500</b>                   | <b>272,864</b>                    | <b>272,933</b>                   |
| <b>Deferred income tax expense/ (income)</b>                | <b>50,779</b>                     | <b>50,779</b>                    | <b>(70,304)</b>                   | <b>(70,304)</b>                  |
| <b>Total income tax expense/ (income)</b>                   | <b>181,279</b>                    | <b>181,279</b>                   | <b>202,560</b>                    | <b>202,629</b>                   |



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|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>13c Current income tax recoverable/ (liability)</b> |                                   |                                  |                                   |                                  |
| Balance at the beginning of the year                   | (276,430)                         | (276,498)                        | (10,133)                          | (10,133)                         |
| Charge for the year:                                   |                                   |                                  |                                   |                                  |
| Income tax expense                                     | (130,500)                         | (130,500)                        | (272,864)                         | (272,933)                        |
| Payment during the year                                | 300,763                           | 300,763                          | 6,568                             | 6,568                            |
| <b>Balance at the end of the year</b>                  | <b>(106,167)</b>                  | <b>(106,236)</b>                 | <b>(276,430)</b>                  | <b>(276,498)</b>                 |

### 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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>The analysis of deferred tax assets/(liabilities) is as follows:</b> |                                   |                                  |                                   |                                  |
| To be recovered after more than 12 months                               | (240,050)                         | (240,050)                        | (187,439)                         | (187,439)                        |
|   | <b>(240,050)</b>                  | <b>(240,050)</b>                 | <b>(187,439)</b>                  | <b>(187,439)</b>                 |

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 2018<br>Birr'000 | Credit/<br>(charge) to<br>P/L<br>Birr'000 | Credit/<br>(charge) to<br>equity<br>Birr'000 | 30 June 2019<br>Birr'000 |
|---|----------------------------|---|--|--------------------------|
| Property, plant and equipment                             | (198,128)                  | (52,025)                                  |  | (250,152)                |
| Equity investments at FVOCI - net change in fair value    |                            |   | (4,841)                                      | (4,841)                  |
| Adjustment on initial application of IFRS 9 (1 July 2018) |                            |   | 635  | 635                      |
| Post employment benefit obligation                        | 10,689                     | 1,246                                     | 2,374  | 14,309                   |
| <b>Total deferred tax assets/(liabilities)</b>            | <b>(187,439)</b>           | <b>(50,779)</b>                           | <b>(1,833)</b>                               | <b>(240,050)</b>         |

#### Group/Bank

##### Deferred income tax assets/(liabilities):

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



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|   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>14 Cash and bank balances</b>            |                                   |                                  |                                   |                                  |
| Cash in hand                                | 38,684                            | 38,344                           | 28,361                            | 28,361                           |
| Balance held with National Bank of Ethiopia | 55,338                            | 55,338                           | 372,957                           | 372,957                          |
| Deposits with local banks                   | 3,903,177                         | 3,894,736                        | 4,000,985                         | 3,991,374                        |
| Deposits with foreign banks                 | 3,607,637                         | 3,607,637                        | 2,581,228                         | 2,581,228                        |
|   | <b>7,604,836</b>                  | <b>7,596,055</b>                 | <b>6,983,531</b>                  | <b>6,973,920</b>                 |
| Less impairment allowance                   | (378)                             | (378)                            |                                   |                                  |
|   | <b>7,604,457</b>                  | <b>7,595,676</b>                 | <b>6,983,531</b>                  | <b>6,973,920</b>                 |
| <b>Maturity analysis</b>                    |                                   |                                  |                                   |                                  |
| Current                                     | 7,549,122                         | 7,540,341                        | 6,610,574                         | 6,600,963                        |
| Non-Current                                 | 55,335                            | 55,335                           | 372,957                           | 372,957                          |
|   | <b>7,604,457</b>                  | <b>7,595,676</b>                 | <b>6,983,531</b>                  | <b>6,973,920</b>                 |

### 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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Cash in hand                                | 38,684                            | 38,344                           | 28,361                            | 28,361                           |
| Balance held with National Bank of Ethiopia | 55,338                            | 55,338                           | 372,957                           | 372,957                          |
| Deposits with local banks                   | 3,903,177                         | 3,894,736                        | 4,000,985                         | 3,991,374                        |
| Deposits with foreign banks                 | 3,607,637                         | 3,607,637                        | 2,581,228                         | 2,581,228                        |
|   | <b>7,604,836</b>                  | <b>7,596,055</b>                 | <b>6,983,531</b>                  | <b>6,973,920</b>                 |
| Less impairment allowance                   | (378)                             | (378)                            |                                   |                                  |
|   | <b>7,604,457</b>                  | <b>7,595,676</b>                 | <b>6,983,531</b>                  | <b>6,973,920</b>                 |

### 15 Loans and advances to customers

|                           |                   |                   |                   |                   |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Agriculture               | 8,048,752         | 8,048,752         | 7,504,406         | 7,504,406         |
| Manufacturing             | 32,135,804        | 32,135,804        | 27,183,741        | 27,183,741        |
| Mining and energy         | 879,128           | 879,128           | 759,915           | 759,915           |
| Service                   | 394,109           | 394,109           | 401,353           | 401,353           |
| Lease services (note 15a) | 4,255,718         | 4,255,718         | 1,792,375         | 1,792,375         |
| Micro-financing           | 4,196,959         | 4,196,959         | 3,326,634         | 3,326,634         |
| Working capital           | 1,242,078         | 1,242,078         | -                 | -                 |
| Consumer (staff)          | 267,326           | 267,326           | 257,387           | 257,387           |
| <b>Gross amount</b>       | <b>51,419,875</b> | <b>51,419,875</b> | <b>41,225,811</b> | <b>41,225,811</b> |

#### Less: impairment allowance for (note 15b):

|   |              |              |             |             |
|---|--------------|--------------|-------------|-------------|
| - Specific impairment under IAS 39              |              |              | (3,349,039) | (3,349,039) |
| - Collective impairment under IAS 39            |              |              | (8,462,445) | (8,462,445) |
| - Stage 1 - 12 month expected credit loss (ECL) | (393,215)    | (393,215)    |             |             |
| - Stage 2 - Lifetime expected credit loss       | (471,821)    | (471,821)    |             |             |
| - Stage 3 - Lifetime expected credit loss       | (10,305,850) | (10,305,850) |             |             |

|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <b>40,248,990</b> | <b>40,248,990</b> | <b>29,414,327</b> | <b>29,414,327</b> |
|--|-------------------|-------------------|-------------------|-------------------|

#### Maturity analysis

|             |                   |                   |                   |                   |
|-------------|-------------------|-------------------|-------------------|-------------------|
| Current     | 10,350,832        | 10,350,832        | 5,504,879         | 5,504,879         |
| Non-Current | 29,898,158        | 29,898,158        | 23,909,448        | 23,909,448        |
|             | <b>40,248,990</b> | <b>40,248,990</b> | <b>29,414,327</b> | <b>29,414,327</b> |



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### 15a Lease services

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

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

|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Gross investment in the finance lease receivable                         | 6,113,492                         | 6,113,492                        | 2,724,416                         | 2,724,416                        |
| Undisbursed commitment balances  | (241,708)                         | (241,708)                        | (279,029)                         | (279,029)                        |
| Unearned finance income  | (1,729,363)                       | (1,729,363)                      | (688,939)                         | (688,939)                        |
| Earned finance income  | 113,298                           | 113,298                          | 35,927                            | 35,927                           |
| <b>Gross amount</b>  | <b>4,255,718</b>                  | <b>4,255,718</b>                 | <b>1,792,375</b>                  | <b>1,792,375</b>                 |
| Impairment allowance for uncollectible minimum lease payments receivable | (334,688)                         | (334,688)                        | (300,713)                         | (300,713)                        |
| <b>Present value of minimum lease payments</b>                           | <b>3,921,031</b>                  | <b>3,921,031</b>                 | <b>1,491,662</b>                  | <b>1,491,662</b>                 |
| Gross investment in the finance lease receivable:                        |                                   |                                  |                                   |                                  |
| - Not later than one year  | 1,092,773                         | 1,092,773                        | 48,284                            | 48,284                           |
| - Later than one year and not later than five years                      | 3,798,214                         | 3,798,214                        | 1,599,378                         | 1,599,378                        |
| - Later than five years  | 1,222,505                         | 1,222,505                        | 1,076,753                         | 1,076,753                        |
|  | <b>6,113,492</b>                  | <b>6,113,492</b>                 | <b>2,724,416</b>                  | <b>2,724,416</b>                 |
| Present value of minimum lease payments may be analysed as:              |                                   |                                  |                                   |                                  |
| - Not later than one year  | 798,966                           | 798,966                          | 258,360                           | 258,360                          |
| - Later than one year and not later than five years                      | 2,996,446                         | 2,996,446                        | 939,601                           | 939,601                          |
| - Later than five years  | 125,618                           | 125,618                          | 293,701                           | 293,701                          |
|  | <b>3,921,031</b>                  | <b>3,921,031</b>                 | <b>1,491,662</b>                  | <b>1,491,662</b>                 |

### 15b Impairment allowance on loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers as at 1 July 2018 is as follows:

|                            | Impairment<br>as at 30 June<br>2018 under<br>IAS 39<br>Birr'000 | Stage 1<br>12 Month ECL<br>Birr'000 | Stage 2<br>Lifetime ECL<br>Birr'000 | Stage 3<br>Lifetime ECL<br>Birr'000 | Net effect of<br>day 1 change<br>in ECL under<br>IFRS 9<br>Birr'000 |
|----------------------------|---|-------------------------------------|-------------------------------------|-------------------------------------|---|
| <b>Specific impairment</b> | 3,349,039   |                                     |                                     |                                     | (3,349,039)   |
| Collective impairment      | 8,462,445   |                                     |                                     |                                     | (8,462,445)   |
| Stage 1 - 12 Month ECL     |   | 371,079                             |                                     |                                     | 371,079   |
| Stage 2 - Lifetime ECL     |   |                                     | 617,190                             |                                     | 617,190   |
| Stage 3 - Lifetime ECL     |   |                                     |                                     | 5,994,928                           | 5,994,928   |
| <b>Total</b>               | <b>11,811,484</b>   | <b>371,079</b>                      | <b>617,190</b>                      | <b>5,994,928</b>                    | <b>(4,828,286)</b>  |

A reconciliation of the allowance for impairment losses for loans and advances to customers as at 30-Jun-19 is as follows:

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



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|   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>16 Investment securities</b>   |                                   |                                  |                                   |                                  |
| <b>Financial assets at fair value through OCI (2018: AFS)</b>           |                                   |                                  |                                   |                                  |
| Equity investments  | 25,390                            | 25,390                           | 11,376                            | 11,376                           |
|   | <b>25,390</b>                     | <b>25,390</b>                    | <b>11,376</b>                     | <b>11,376</b>                    |
| <b>Financial assets at amortized cost (2018: Loans and receivables)</b> |                                   |                                  |                                   |                                  |
| Treasury bills  | 29,231,981                        | 29,231,981                       | 29,609,701                        | 29,609,701                       |
| Ethiopian Government bonds  | 1,807,974                         | 1,807,974                        | 2,014,647                         | 2,014,647                        |
| <b>Gross amount</b>   | <b>31,039,955</b>                 | <b>31,039,955</b>                | <b>31,624,349</b>                 | <b>31,624,349</b>                |
| Less: impairment allowance  | (1,552)                           | (1,552)                          |                                   |                                  |
|   | <b>31,038,403</b>                 | <b>31,038,403</b>                | <b>31,635,725</b>                 | <b>31,635,725</b>                |
| <b>Maturity analysis</b>  |                                   |                                  |                                   |                                  |
| Current   | 29,230,603                        | 29,230,603                       | 29,609,701                        | 29,609,701                       |
| Non-Current   | 1,833,190                         | 1,833,190                        | 2,026,023                         | 2,026,023                        |
|   | <b>31,063,793</b>                 | <b>31,063,793</b>                | <b>31,635,725</b>                 | <b>31,635,725</b>                |

The Bank holds equity investments in Eth-switch of 5.26% (30 June 2018: 5.26%). The equity investments primary valuation technique adopted by the bank in undertaking the valuation of the investee companies is the market approach. This is because the financial information available on the investee companies consists of historical audited financial statements.

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

Treasury bills shall be redeemed within one year. Ethiopian government bonds shall be redeemed in ten equal annual installments after a grace period of five years with the first installment commencing on 1 July 2022.

|                                    | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>17 Investment in subsidiary</b> |                                   |                                  |                                   |                                  |
| Ethio Capital & Investment PLC     |                                   | 9,999                            |                                   | 9,999                            |
|                                    |                                   | <b>9,999</b>                     |                                   | <b>9,999</b>                     |
| <b>Maturity analysis</b>           |                                   |                                  |                                   |                                  |
| Current                            |                                   |                                  |                                   |                                  |
| Non-Current                        |                                   | 9,999                            |                                   | 9,999                            |
|                                    |                                   | <b>9,999</b>                     |                                   | <b>9,999</b>                     |

- (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.



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

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

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

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

| Name of Company                | Nature of business        | Country of incorporation | Ownership interest |              |
|--------------------------------|---------------------------|--------------------------|--------------------|--------------|
|                                |                           |                          | 30 June 2019       | 30 June 2018 |
| Ethio Capital & Investment PLC | Asset management & others | Ethiopia                 | 99.99%             | 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 2019 in which the company was established.

|   | Ethio Capital & Investment PLC |                          |
|---|--------------------------------|--------------------------|
|   | 30 June 2019<br>Birr'000       | 30 June 2018<br>Birr'000 |
| <b>Summarized statement of profit or loss</b>       |                                |                          |
| Operating income                                    | 730                            | 576                      |
| Operating expenses                                  | (873)                          | (810)                    |
| Profit before tax                                   | (143)                          | (235)                    |
| Income tax expense                                  |                                | 69                       |
| <b>Profit/(loss) for the period</b>                 | <b>(143)</b>                   | <b>(166)</b>             |
| <b>Profit/(loss) allocated to NCI</b>               | <b>(0.01)</b>                  | <b>(0.01)</b>            |
| <b>Consolidated statement of financial position</b> |                                |                          |
| <b>Assets</b>                                       |                                |                          |
| Cash and bank balances                              | 8,781                          | 9,610                    |
| Other assets  | 971                            | 138                      |
| Property, plant and equipment                       | 13                             | 40                       |
| <b>Total assets</b>                                 | <b>9,765</b>                   | <b>9,789</b>             |
| <b>Liabilities &amp; Equity</b>                     |                                |                          |
| <b>Liabilities</b>                                  |                                |                          |
| Current tax liabilities                             |                                | (69)                     |
| Other liabilities                                   | 143                            | 23                       |
| <b>Total liabilities</b>                            | <b>143</b>                     | <b>(46)</b>              |
| <b>Equity</b>                                       |                                |                          |
| Capital   | 10,000                         | 10,000                   |
| Retained earnings                                   | (378)                          | (166)                    |
| <b>Total equity</b>                                 | <b>9,622</b>                   | <b>9,834</b>             |
| <b>Total liabilities and equity</b>                 | <b>9,765</b>                   | <b>9,789</b>             |
| <b>Accumulated NCI</b>                              | <b>1</b>                       | <b>1</b>                 |



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**Ethio Capital & Investment PLC**

**Summarized statement of cash flows**

|  | 30 June 2019<br>Birr'000 | 30 June 2018<br>Birr'000 |
|--|--------------------------|--------------------------|
| Net cash flows (used in)/from operating activities           | (695)                    | (350)                    |
| Net cash flows (used in) /from investing activities          | (1)                      | (40)                     |
| Net cash flows (used in) /from financing activities          |                          |                          |
| <b>Net increase/ (decrease) in cash and cash equivalents</b> | <b>(695)</b>             | <b>(390)</b>             |
| Cash and cash equivalents, beginning of period               | 1,035                    | 10,000                   |
| <b>Cash and cash equivalents, end of period</b>              | <b>340</b>               | <b>9,610</b>             |

|  | Group<br>30 June<br>2019<br>Birr'000 | Bank<br>30 June<br>2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|--------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|
|--|--------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|

**18 Other assets**

**Financial assets**

|                            |                  |                  |                  |                  |
|----------------------------|------------------|------------------|------------------|------------------|
| Uncleared effects          | 168,810          | 168,810          | 186,025          | 186,025          |
| Staff advances             | 31,068           | 31,049           | 5,498            | 5,498            |
| Sundry receivables         | 1,550,999        | 1,550,133        | 1,925,640        | 1,925,638        |
|                            | <b>1,750,877</b> | <b>1,749,992</b> | <b>2,117,163</b> | <b>2,117,161</b> |
| Less: impairment allowance | (51,250)         | (51,250)         | (10,817)         | (10,817)         |
|                            | <b>1,699,627</b> | <b>1,698,742</b> | <b>2,106,346</b> | <b>2,106,344</b> |

**Non-financial assets**

|                               |                  |                  |                  |                  |
|-------------------------------|------------------|------------------|------------------|------------------|
| Assets held for lease         | 323,282          | 323,282          | 300,570          | 300,570          |
| Prepaid staff expense         | 122,449          | 122,449          | 101,682          | 101,682          |
| Prepayments                   | 12,836           | 12,830           | 17,823           | 17,746           |
| Inventory and office supplies | 12,307           | 12,307           | 1,610            | 1,610            |
| Assets awaiting for sale      | 1,799,433        | 1,799,433        | 1,807,458        | 1,807,458        |
| Value added tax recoverable   | 80               | 80               | 60               | 60               |
|                               | <b>2,270,387</b> | <b>2,270,301</b> | <b>2,229,203</b> | <b>2,229,066</b> |
| Less: Impairment allowance    | (598,661)        | (598,661)        | (242,494)        | (242,494)        |
|                               | <b>1,671,725</b> | <b>1,671,640</b> | <b>1,986,709</b> | <b>1,986,572</b> |
| <b>Net amount</b>             | <b>3,371,353</b> | <b>3,370,382</b> | <b>4,093,055</b> | <b>4,092,917</b> |

**Maturity analysis**

|             |                  |                  |                  |                  |
|-------------|------------------|------------------|------------------|------------------|
| Current     | 1,137,926        | 1,137,926        | 191,523          | 191,523          |
| Non-Current | 2,233,427        | 2,232,456        | 3,901,532        | 3,901,394        |
|             | <b>3,371,353</b> | <b>3,370,382</b> | <b>4,093,055</b> | <b>4,092,917</b> |

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.



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## 18a Impairment allowance on other assets

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

|   | <b>Group</b>        | <b>Bank</b>         | <b>Group</b>        | <b>Bank</b>         |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <b>30 June 2019</b> | <b>30 June 2019</b> | <b>30 June 2018</b> | <b>30 June 2018</b> |
|   | <b>Birr'000</b>     | <b>Birr'000</b>     | <b>Birr'000</b>     | <b>Birr'000</b>     |
| <b>Balance at the beginning of the year</b>                       | 253,311             | 253,311             | 321,369             | 321,369             |
| Day 1 change on ECL (adjustment on initial application of IFRS 9) | (8,660)             | (8,660)             |                     |                     |
| Write-off during the year   | (846)               | (846)               |                     |                     |
| Charge /(reversal)/ for the year (note 10)                        | 408,110             | 408,110             | (68,058)            | (68,058)            |
| <b>Balance at the end of the year</b>                             | <b>651,915</b>      | <b>651,915</b>      | <b>253,311</b>      | <b>253,311</b>      |



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|                                       | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>19 Investment property</b>         |                                   |                                  |                                   |                                  |
| <b>Cost:</b>                          |                                   |                                  |                                   |                                  |
| At the beginning of the year          | 232,613                           | 232,613                          | 232,484                           | 232,484                          |
| Acquisitions                          |                                   |                                  |                                   |                                  |
| Disposals                             | 7,711                             | 7,711                            | 129                               | 129                              |
| At the end of the year                | <b>240,323</b>                    | <b>240,323</b>                   | <b>232,613</b>                    | <b>232,613</b>                   |
| <b>Accumulated amortisation:</b>      |                                   |                                  |                                   |                                  |
| At the beginning of the year          | 17,335                            | 17,335                           | 8,340                             | 8,340                            |
| Charge for the year                   | 3,906                             | 3,906                            | 8,995                             | 8,995                            |
| Disposals                             |                                   |                                  |                                   |                                  |
| At the end of the year                | <b>21,241</b>                     | <b>21,241</b>                    | <b>17,335</b>                     | <b>17,335</b>                    |
| Net book value at the end of the year | <b>219,082</b>                    | <b>219,082</b>                   | <b>215,278</b>                    | <b>215,278</b>                   |

## 19a Amounts recognised in profit or loss for investment properties

|  |              |              |               |               |
|--|--------------|--------------|---------------|---------------|
| Rental income  | 15,410       | 15,410       | 17,798        | 17,798        |
| Direct operating expenses from property that generated rental income | (5,414)      | (5,414)      |               |               |
|  | <b>9,995</b> | <b>9,995</b> | <b>17,798</b> | <b>17,798</b> |

## 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 2019 and 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 cost approach mainly involves determination of replacement cost of developments and corresponding depreciation.

In applying cost approach, buildings are first categorized according to their purposes, height, materials of construction and size. Then each category is further classified into grades based on the quality of materials used for the construction. For the analysis of cost of construction complete structural, architectural, electrical, sanitary and other designs of representative buildings are collected and bill of quantity is prepared using currently updated unit price manual, 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.





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| Group                                   | Buildings      |                | Motor vehicles |               | Furniture and fittings |               | Machinery & equipment |          | Computer installations |          | Capital work in progress |          | Leaschold land |          | Total            |
|---|----------------|----------------|----------------|---------------|------------------------|---------------|-----------------------|----------|------------------------|----------|--------------------------|----------|----------------|----------|------------------|
|   | Birr'000       | Birr'000       | Birr'000       | Birr'000      | Birr'000               | Birr'000      | Birr'000              | Birr'000 | Birr'000               | Birr'000 | Birr'000                 | Birr'000 | Birr'000       | Birr'000 |                  |
| <b>21 Property, Plant and Equipment</b> |                |                |                |               |                        |               |                       |          |                        |          |                          |          |                |          |                  |
| <b>Cost:</b>                            |                |                |                |               |                        |               |                       |          |                        |          |                          |          |                |          |                  |
| 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         | 4,922          | 4,857         | 8,982                  | 6,220         |                       |          |                        |          |                          |          |                |          | 60,524           |
| Disposals                               |                | (4,720)        |                |               |                        |               |                       |          |                        |          |                          |          |                |          | (4,720)          |
| Write-off                               |                | (8,046)        | (3,550)        |               | (3,925)                |               |                       |          |                        |          |                          |          |                |          | (15,520)         |
| <b>As at 30 June 2018</b>               | <b>566,287</b> | <b>230,031</b> | <b>26,245</b>  | <b>43,148</b> | <b>142,420</b>         | <b>53,590</b> |                       |          |                        |          |                          |          |                |          | <b>1,065,158</b> |
| As at 1 July 2018                       | 566,287        | 230,031        | 26,255         | 43,094        | 142,402                | 53,590        |                       |          |                        |          |                          |          |                |          | 1,065,096        |
| Additions                               | 43,853         | 83,975         | 6,051          | 15,542        | 50,041                 | 6,431         |                       |          |                        |          |                          |          |                |          | 205,892          |
| Disposal (through sales)                |                | (1,180)        | (47)           | (24)          | (163)                  |               |                       |          |                        |          |                          |          |                |          | (1,414)          |
| Disposal (through donation)             |                | (21)           | (198)          | (2)           | (1,863)                | (20)          |                       |          |                        |          |                          |          |                |          | (2,085)          |
| Write-off                               |                |                |                |               |                        |               |                       |          |                        |          |                          |          |                |          | (20)             |
| Transfer                                |                | (40,268)       | (10,029)       | (10,029)      | (40,387)               | (51,564)      |                       |          |                        |          |                          |          |                |          | (142,246)        |
| <b>As at 30 June 2019</b>               | <b>610,140</b> | <b>272,537</b> | <b>32,061</b>  | <b>48,581</b> | <b>150,010</b>         | <b>8,457</b>  |                       |          |                        |          |                          |          |                |          | <b>1,125,223</b> |
| <b>Accumulated Depreciation</b>         |                |                |                |               |                        |               |                       |          |                        |          |                          |          |                |          |                  |
| 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         | 2,395          | 4,564         | 14,041                 |               |                       |          |                        |          |                          |          |                |          | 75,202           |
| Disposals                               |                | (3,608)        |                |               |                        |               |                       |          |                        |          |                          |          |                |          | (3,608)          |
| Write-off                               |                | (3,917)        | (3,354)        |               | (3,177)                |               |                       |          |                        |          |                          |          |                |          | (10,448)         |
| Adjustment                              |                | 4,414          | 865            | (491)         | (3,867)                |               |                       |          |                        |          |                          |          |                |          | 921              |
| <b>As at 30 June 2018</b>               | <b>68,315</b>  | <b>95,901</b>  | <b>9,316</b>   | <b>21,691</b> | <b>46,653</b>          |               |                       |          |                        |          |                          |          |                |          | <b>241,889</b>   |
| As at 1 July 2018                       | 68,315         | 95,901         | 9,315          | 21,736        | 46,670                 |               |                       |          |                        |          |                          |          |                |          | 241,948          |
| Charge for the year                     | 27,427         | 21,627         | 2,753          | 4,400         | 15,903                 |               |                       |          |                        |          |                          |          |                |          | 72,498           |
| Disposal (through sales)                |                | (1,144)        | (26)           | (24)          | (157)                  |               |                       |          |                        |          |                          |          |                |          | (1,350)          |
| Disposal (through Donation)             |                | (20)           | (196)          | (2)           | (1,845)                |               |                       |          |                        |          |                          |          |                |          | (2,063)          |
| <b>As at 30 June 2019</b>               | <b>95,742</b>  | <b>116,364</b> | <b>11,846</b>  | <b>26,110</b> | <b>60,572</b>          |               |                       |          |                        |          |                          |          |                |          | <b>311,032</b>   |
| <b>Net book value</b>                   |                |                |                |               |                        |               |                       |          |                        |          |                          |          |                |          |                  |
| As at 30 June 2018                      | 497,973        | 134,130        | 16,929         | 21,457        | 95,768                 | 53,590        |                       |          |                        |          |                          |          |                |          | 823,269          |
| As at 30 June 2019                      | 514,399        | 156,173        | 20,215         | 22,472        | 89,438                 | 8,457         |                       |          |                        |          |                          |          |                |          | 814,189          |



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|   | Buildings      |                | Motor vehicles |               | Furniture and fittings |               | Machinery & equipment |                  | Computer installations |          | Capital work in progress |          | Leasehold land |          | Total     |          |
|---|----------------|----------------|----------------|---------------|------------------------|---------------|-----------------------|------------------|------------------------|----------|--------------------------|----------|----------------|----------|-----------|----------|
|   | Birr'000       | Birr'000       | Birr'000       | Birr'000      | Birr'000               | Birr'000      | Birr'000              | Birr'000         | Birr'000               | Birr'000 | Birr'000                 | Birr'000 | Birr'000       | Birr'000 | Birr'000  | Birr'000 |
| <b>Bank</b>                               |                |                |                |               |                        |               |                       |                  |                        |          |                          |          |                |          |           |          |
| <b>Cost:</b>                              |                |                |                |               |                        |               |                       |                  |                        |          |                          |          |                |          |           |          |
| 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         |                       |                  |                        |          |                          |          |                |          | 60,482    |          |
| Disposals                                 | (4,720)        | (8,046)        | (3,550)        |               | (3,925)                |               |                       |                  |                        |          |                          |          |                |          | (4,720)   |          |
| Write-off                                 |                |                |                |               |                        |               |                       |                  |                        |          |                          |          |                |          | (15,520)  |          |
| <b>As at 30 June 2018</b>                 | <b>566,287</b> | <b>230,031</b> | <b>26,237</b>  | <b>43,148</b> | <b>142,386</b>         | <b>53,590</b> | <b>3,437</b>          | <b>1,065,116</b> |                        |          |                          |          |                |          |           |          |
| <b>As at 1 July 2018</b>                  | <b>566,287</b> | <b>230,031</b> | <b>26,237</b>  | <b>43,148</b> | <b>142,386</b>         | <b>53,590</b> | <b>3,437</b>          | <b>1,065,116</b> |                        |          |                          |          |                |          |           |          |
| Opening balance adjustment                |                |                | 10             | (54)          | (18)                   |               |                       | (62)             |                        |          |                          |          |                |          |           |          |
| <b>Restated balance as at 1 July 2018</b> | <b>566,287</b> | <b>230,031</b> | <b>26,246</b>  | <b>43,094</b> | <b>142,368</b>         | <b>53,590</b> | <b>3,437</b>          | <b>1,065,054</b> |                        |          |                          |          |                |          |           |          |
| Additions                                 | 43,853         | 83,975         | 6,051          | 15,542        | 50,041                 | 6,431         |                       |                  |                        |          |                          |          |                |          | 205,892   |          |
| Disposal (through sales)                  | (1,180)        | (1,180)        | (47)           | (24)          | (103)                  |               |                       |                  |                        |          |                          |          |                |          | (1,414)   |          |
| Disposal (through Donation)               | (21)           | (21)           | (198)          | (2)           | (1,863)                |               |                       |                  |                        |          |                          |          |                |          | (2,085)   |          |
| Transfer                                  | (40,268)       | (40,268)       |                | (10,029)      | (40,387)               | (51,564)      |                       |                  |                        |          |                          |          |                |          | (142,240) |          |
| <b>As at 30 June 2019</b>                 | <b>610,140</b> | <b>272,537</b> | <b>32,052</b>  | <b>48,581</b> | <b>149,996</b>         | <b>8,437</b>  | <b>3,437</b>          | <b>1,125,200</b> |                        |          |                          |          |                |          |           |          |
| <b>Accumulated depreciation</b>           |                |                |                |               |                        |               |                       |                  |                        |          |                          |          |                |          |           |          |
| 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                 |               |                       |                  |                        |          |                          |          |                |          | 75,200    |          |
| Disposals                                 |                | (3,608)        |                |               |                        |               |                       |                  |                        |          |                          |          |                |          | (3,608)   |          |
| Write-off                                 | (3,917)        | (3,917)        | (3,354)        |               | (3,177)                |               |                       |                  |                        |          |                          |          |                |          | (10,448)  |          |
| Adjustment                                |                | 4,414          | 865            | (491)         | (3,867)                |               |                       |                  |                        |          |                          |          |                |          | 921       |          |
| <b>As at 30 June 2018</b>                 | <b>68,315</b>  | <b>95,901</b>  | <b>9,315</b>   | <b>21,691</b> | <b>46,651</b>          | <b>8,437</b>  | <b>14</b>             | <b>241,887</b>   |                        |          |                          |          |                |          |           |          |
| <b>As at 1 July 2018</b>                  | <b>68,315</b>  | <b>95,901</b>  | <b>9,315</b>   | <b>21,691</b> | <b>46,651</b>          | <b>8,437</b>  | <b>14</b>             | <b>241,887</b>   |                        |          |                          |          |                |          |           |          |
| Opening balance adjustment                |                |                | (1)            | 44            | 18                     |               |                       | 61               |                        |          |                          |          |                |          |           |          |
| <b>Restated balance as at 1 July 2018</b> | <b>68,315</b>  | <b>95,901</b>  | <b>9,314</b>   | <b>21,736</b> | <b>46,668</b>          | <b>8,437</b>  | <b>14</b>             | <b>241,948</b>   |                        |          |                          |          |                |          |           |          |
| Charge for the year                       | 27,427         | 21,627         | 2,752          | 4,400         | 15,897                 |               |                       |                  |                        |          |                          |          |                |          | 72,491    |          |
| Disposal (through sales)                  | (1,144)        | (1,144)        | (26)           | (24)          | (157)                  |               |                       |                  |                        |          |                          |          |                |          | (1,350)   |          |
| Disposal (through Donation)               | (20)           | (20)           | (196)          | (2)           | (1,845)                |               |                       |                  |                        |          |                          |          |                |          | (2,063)   |          |
| <b>As at 30 June 2019</b>                 | <b>95,742</b>  | <b>116,364</b> | <b>11,844</b>  | <b>26,110</b> | <b>60,564</b>          | <b>8,437</b>  | <b>401</b>            | <b>311,025</b>   |                        |          |                          |          |                |          |           |          |
| <b>Net book value</b>                     |                |                |                |               |                        |               |                       |                  |                        |          |                          |          |                |          |           |          |
| As at 30 June 2018                        | 497,973        | 134,130        | 16,932         | 21,358        | 95,700                 | 53,590        | 3,423                 | 823,106          |                        |          |                          |          |                |          |           |          |
| As at 30 June 2019                        | 514,399        | 156,173        | 20,208         | 22,472        | 89,432                 | 8,437         | 3,035                 | 814,175          |                        |          |                          |          |                |          |           |          |



# Development Bank of Ethiopia

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|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>22 Deposits from customers</b>      |                                   |                                  |                                   |                                  |
| Demand deposits                        | 446,882                           | 446,882                          | 565,572                           | 565,572                          |
| Savings deposits                       | 18,385                            | 18,385                           | 19,712                            | 19,712                           |
| Time deposits                          | 105,485                           | 105,485                          | 105,614                           | 105,614                          |
| Customers deposits in foreign currency | 229,931                           | 229,931                          | 422,037                           | 422,037                          |
|  | <b>800,683</b>                    | <b>800,683</b>                   | <b>1,112,935</b>                  | <b>1,112,935</b>                 |

### Maturity analysis

|             |                |                |                  |                  |
|-------------|----------------|----------------|------------------|------------------|
| Current     | 720,614        | 720,614        | 1,001,642        | 1,001,642        |
| Non-Current | 80,068         | 80,068         | 111,294          | 111,294          |
|             | <b>800,683</b> | <b>800,683</b> | <b>1,112,935</b> | <b>1,112,935</b> |

### 23 Debt securities issued

|  |                  |                  |                   |                   |
|--|------------------|------------------|-------------------|-------------------|
| Ethiopian Government Saving/Renaissance Dam/ Bonds | 9,800,005        | 9,800,005        | 10,496,009        | 10,496,009        |
|  | <b>9,800,005</b> | <b>9,800,005</b> | <b>10,496,009</b> | <b>10,496,009</b> |

Ethiopian Government Saving (Renaissance Dam) Bonds are bonds bearing initially interest rates of 5.5% and 6% per annum issued by the Bank, 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.

All these bonds are guaranteed by the Ethiopian Government.

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

|                          | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>Maturity analysis</b> |                                   |                                  |                                   |                                  |
| Current                  | 2,230,000                         | 2,230,000                        | 244,247                           | 244,247                          |
| Non-Current              | 7,570,005                         | 7,570,005                        | 10,251,761                        | 10,251,761                       |
|                          | <b>9,800,005</b>                  | <b>9,800,005</b>                 | <b>10,496,009</b>                 | <b>10,496,009</b>                |

### 23a Reconciliation of debt securities issued

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

|   |                  |                  |                   |                   |
|---|------------------|------------------|-------------------|-------------------|
| <b>Balance at the beginning of the year</b> | 10,496,009       | 10,496,009       | 8,965,576         | 8,965,576         |
| Proceeds from issue of debt securities      | 1,617,465        | 1,617,465        | 2,410,895         | 2,410,895         |
| Repayments on debt securities               | (2,313,469)      | (2,313,469)      | (1,222,230)       | (1,222,230)       |
| Adjustment                                  |                  |                  | 341,768           | 341,768           |
| <b>Balance at the end of the year</b>       | <b>9,800,005</b> | <b>9,800,005</b> | <b>10,496,009</b> | <b>10,496,009</b> |

### 24 Borrowings

|                           |                   |                   |                   |                   |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| China Development Bank    | 1,012,507         | 1,012,507         | 1,162,694         | 1,162,694         |
| Ministry of Finance       | 8,392,750         | 8,392,750         | 5,685,710         | 5,685,710         |
| National Bank of Ethiopia | 52,910,376        | 52,910,376        | 47,692,817        | 47,692,817        |
|                           | <b>62,315,634</b> | <b>62,315,634</b> | <b>54,541,222</b> | <b>54,541,222</b> |

### Maturity analysis

|             |                   |                   |                   |                   |
|-------------|-------------------|-------------------|-------------------|-------------------|
| Current     | 6,011,042         | 6,011,042         | 4,184,012         | 4,184,012         |
| Non-Current | 56,304,592        | 56,304,592        | 50,357,210        | 50,357,210        |
|             | <b>62,315,634</b> | <b>62,315,634</b> | <b>54,541,222</b> | <b>54,541,222</b> |



# Development Bank of Ethiopia

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

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

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

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

### 24a Reconciliation of Bank Borrowings

A reconciliation of the changes in borrowings is as follows:

|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>Balance at the beginning of the year</b>              | 54,541,222                        | 54,541,222                       | 32,391,839                        | 32,391,839                       |
| Proceeds from borrowings                                 | 9,249,469                         | 9,249,469                        | 26,110,612                        | 26,110,612                       |
| Accrued effective interest                               | 1,754,410                         | 1,754,410                        | 320,575                           | 320,575                          |
| Rate fluctuation   | 64,754                            | 64,754                           | 205,168                           | 205,168                          |
| Repayment of borrowings                                  | (3,294,359)                       | (3,294,359)                      | (4,486,972)                       | (4,486,972)                      |
| <b>Balance at the end of the year</b>                    | <b>62,315,497</b>                 | <b>62,315,497</b>                | <b>54,541,222</b>                 | <b>54,541,222</b>                |
| <b>25 Other liabilities</b>                              |                                   |                                  |                                   |                                  |
| <b>Financial liabilities</b>                             |                                   |                                  |                                   |                                  |
| Letter of credit margin payables                         | 1,593,493                         | 1,593,493                        | 1,482,377                         | 1,482,377                        |
| Foreign exchange retentions payable                      | 93,716                            | 93,716                           | 88,923                            | 88,923                           |
| Equity and other blocked account                         | 1,293,961                         | 1,293,961                        | 1,394,301                         | 1,394,301                        |
| Defined contribution liabilities                         | 3,697                             | 3,697                            | 3,269                             | 3,263                            |
| Banking instruments payables                             | 29,487                            | 29,487                           |                                   |                                  |
| Exchange commission payable                              | 3,397                             | 3,397                            |                                   |                                  |
| Risk fund payable  | 362,673                           | 362,673                          | 215,085                           | 215,085                          |
| Managed funds payable                                    | 59,426                            | 59,426                           | 61,009                            | 61,009                           |
| Accrued payable  | 69,041                            | 69,041                           | 243,534                           | 243,534                          |
| Allowance for impairment loss on off-balance sheet items | 74                                | 74                               |                                   |                                  |
| Other payables   | 844,452                           | 844,321                          | 489,364                           | 489,364                          |
|  | <b>4,353,417</b>                  | <b>4,353,286</b>                 | <b>3,977,862</b>                  | <b>3,977,856</b>                 |
| <b>Non-financial liabilities</b>                         |                                   |                                  |                                   |                                  |
| Stamp duty payable                                       | 2,350                             | 2,350                            | 31                                | 31                               |
| Withholding tax and valued added tax payables            | 1,574                             | 1,574                            | 11,392                            | 11,392                           |
| Other tax payable  | 5,921                             | 5,908                            | 4,960                             | 4,942                            |
|  | <b>9,845</b>                      | <b>9,832</b>                     | <b>16,384</b>                     | <b>16,366</b>                    |
| <b>Gross amount</b>                                      | <b>4,363,261</b>                  | <b>4,363,118</b>                 | <b>3,994,246</b>                  | <b>3,994,222</b>                 |
| <b>Maturity analysis</b>                                 |                                   |                                  |                                   |                                  |
| Current  | 2,572,164                         | 2,577,942                        | 2,080,316                         | 2,080,292                        |
| Non-Current  | 1,791,097                         | 1,785,176                        | 1,913,930                         | 1,913,930                        |
|  | <b>4,363,261</b>                  | <b>4,363,118</b>                 | <b>3,994,246</b>                  | <b>3,994,222</b>                 |



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|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>26 Retirement benefit obligations</b>                       |                                   |                                  |                                   |                                  |
| <b>Defined benefits liabilities:</b>                           |                                   |                                  |                                   |                                  |
| - Employee benefit plan (note 26a)                             | 38,396                            | 38,396                           | 29,394                            | 29,394                           |
| - Medical benefits scheme (note 26b)                           | 9,300                             | 9,300                            | 6,237                             | 6,237                            |
| <b>Liability in the statement of financial position</b>        | <b>47,696</b>                     | <b>47,696</b>                    | <b>35,631</b>                     | <b>35,631</b>                    |
| <b>Income statement charge included in personnel expenses:</b> |                                   |                                  |                                   |                                  |
| - Employee benefit plan (note 26a)                             | 7,040                             | 7,040                            | 3,794                             | 3,794                            |
| - Medical benefits scheme (note 26b)                           | 663                               | 663                              | 801                               | 801                              |
| <b>Total defined benefit expenses</b>                          | <b>7,703</b>                      | <b>7,703</b>                     | <b>4,595</b>                      | <b>4,595</b>                     |
| <b>Remeasurements (net of tax) for:</b>                        |                                   |                                  |                                   |                                  |
| - Employee benefit plan (note 26a)                             | 2,533                             | 2,533                            | 8,562                             | 8,562                            |
| - Medical benefits scheme (note 26b)                           | 3,006                             | 3,006                            | 37                                | 37                               |
|  | <b>5,538</b>                      | <b>5,538</b>                     | <b>8,600</b>                      | <b>8,600</b>                     |

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

### Maturity analysis

|             | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Current     | 3,764                             | 3,764                            | 2,607                             | 2,607                            |
| Non-Current | 43,932                            | 43,932                           | 33,024                            | 33,024                           |
|             | <b>47,696</b>                     | <b>47,696</b>                    | <b>35,631</b>                     | <b>35,631</b>                    |

### 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.



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

|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>A Liability recognised in the financial position</b>  | <b>38,396</b>                     | <b>38,396</b>                    | <b>29,394</b>                     | <b>29,394</b>                    |
| The split of the defined benefit obligation in respect of the different benefits included is summarised below: |                                   |                                  |                                   |                                  |
| Severance benefit (resignation)  | 21,547                            | 21,547                           | 16,476                            | 16,476                           |
| Funeral assistance (death in service)  | 1,289                             | 1,289                            | 1,042                             | 1,042                            |
| Pension prize (retirement)   | 15,560                            | 15,560                           | 11,876                            | 11,876                           |
|  | <b>38,396</b>                     | <b>38,396</b>                    | <b>29,394</b>                     | <b>29,394</b>                    |
| <b>B Amount recognised in the profit or loss</b>   |                                   |                                  |                                   |                                  |
| Current service cost   | 3,050                             | 3,050                            | 1,565                             | 1,565                            |
| Interest cost  | 3,990                             | 3,990                            | 2,229                             | 2,229                            |
|  | <b>7,040</b>                      | <b>7,040</b>                     | <b>3,794</b>                      | <b>3,794</b>                     |
| <b>C Re-measurement (gains)/losses in other comprehensive income</b>   |                                   |                                  |                                   |                                  |
| Remeasurement (gains)/losses arising from changes in demographic   |                                   |                                  |                                   |                                  |
| Remeasurement (gains)/losses arising from changes in economic assumptions                                      | 2,844                             | 2,844                            | 11,076                            | 11,076                           |
| Remeasurement (gains)/losses arising from changes in experience  | 774                               | 774                              | 1,156                             | 1,156                            |
|  | <b>3,618</b>                      | <b>3,618</b>                     | <b>12,232</b>                     | <b>12,232</b>                    |
| Deferred tax (liability)/asset on remeasurement gain or loss   | (1,085)                           | (1,085)                          | (3,670)                           | (3,670)                          |
|  | <b>2,533</b>                      | <b>2,533</b>                     | <b>8,562</b>                      | <b>8,562</b>                     |
| <b>D Changes in the present value of the defined benefit obligation</b>  |                                   |                                  |                                   |                                  |
| At the beginning of the year   | 29,394                            | 29,394                           | 14,789                            | 14,789                           |
| Current service cost   | 3,050                             | 3,050                            | 1,565                             | 1,565                            |
| Actual benefit payments  | (1,656)                           | (1,656)                          | (1,421)                           | (1,421)                          |
| Interest cost  | 3,990                             | 3,990                            | 2,229                             | 2,229                            |
| from changes in demographic assumptions  |                                   |                                  |                                   |                                  |
| Remeasurement (gains)/losses arising from changes in economic assumptions                                      | 2,844                             | 2,844                            | 11,076                            | 11,076                           |
| Remeasurement (gains)/losses arising from changes in experience  | 774                               | 774                              | 1,156                             | 1,156                            |
| At the end of the year   | <b>38,396</b>                     | <b>38,396</b>                    | <b>29,394</b>                     | <b>29,394</b>                    |
| <b>E The principal assumptions used in determining defined benefit obligations</b>                             |                                   |                                  |                                   |                                  |
| Discount rate (p.a)  | 11.75%                            | 11.75%                           | 12.62%                            | 12.62%                           |
| Long term salary increases (p.a)   | 12.00%                            | 12.00%                           | 12.00%                            | 12.00%                           |
| Average Rate of Inflation (p.a)  | 10.00%                            | 10.00%                           | 10.00%                            | 10.00%                           |

(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.



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### (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 10% p.a as at 30 June 2019 which 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 47, mortality rate was assumed to be in line with the SA85/90 ultimate standard South African mortality tables published by the Actuarial Society of South Africa ("ASSA"), since the rates in these tables are similar to the DHS female mortality rate at age 47.

These rates combined are approximately summarized as follows:

|    | Males   | Females |
|----|---------|---------|
| 20 | 0.00306 | 0.00223 |
| 25 | 0.00303 | 0.00228 |
| 30 | 0.00355 | 0.00314 |
| 35 | 0.00405 | 0.00279 |
| 40 | 0.00515 | 0.00319 |
| 45 | 0.0045  | 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 is 10 years as at 30 June 2019.

## F Quantitative sensitivity analysis for significant assumption

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

| Change in assumption | Impact on Defined Benefit Obligation |                                  |                                   |                                  |       |
|----------------------|--------------------------------------|----------------------------------|-----------------------------------|----------------------------------|-------|
|                      | Group/Bank                           |                                  | Group/Bank                        |                                  |       |
|                      | 30 June 2019                         |                                  | 30 June 2018                      |                                  |       |
|                      | Impact of an increase<br>Birr'000    | Impact of a decrease<br>Birr'000 | Impact of an increase<br>Birr'000 | Impact of a decrease<br>Birr'000 |       |
| Discount rate        | 1%                                   | (35,024)                         | 42,128                            | (1,268)                          | 1,331 |

| Change in assumption | Impact on Current Service Cost   |                                 |                                  |                                 |     |
|----------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|-----|
|                      | Group/Bank                       |                                 | Group/Bank                       |                                 |     |
|                      | 30 June 2019                     |                                 | 30 June 2018                     |                                 |     |
|                      | Impact of an increase<br>ETB'000 | Impact of a decrease<br>ETB'000 | Impact of an increase<br>ETB'000 | Impact of a decrease<br>ETB'000 |     |
| Discount rate        | 1%                               | (3,408)                         | 4,100                            | (132)                           | 138 |



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|                      |    | Impact on Defined Benefit Obligation |                                  |                                   |                                  |
|----------------------|----|--------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                      |    | Group/Bank                           |                                  | Group/Bank                        |                                  |
|                      |    | 30 June 2019                         |                                  | 30 June 2018                      |                                  |
| Change in assumption |    | Impact of an increase<br>Birr'000    | Impact of a decrease<br>Birr'000 | Impact of an increase<br>Birr'000 | Impact of a decrease<br>Birr'000 |
| Salary increase      | 1% | (42,084)                             | 35,002                           |                                   |                                  |

|                      |    | Impact on Current Service Cost   |                                 |                                  |                                 |
|----------------------|----|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                      |    | Group/Bank                       |                                 | Group/Bank                       |                                 |
|                      |    | 30 June 2019                     |                                 | 30 June 2018                     |                                 |
| Change in assumption |    | Impact of an increase<br>ETB'000 | Impact of a decrease<br>ETB'000 | Impact of an increase<br>ETB'000 | Impact of a decrease<br>ETB'000 |
| Salary increase      | 1% | (4,095)                          | 3,406                           |                                  |                                 |

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

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

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

|                          | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Year ending 30 June 2020 | 3,048                             | 3,048                            | 2,108                             | 2,108                            |
| Year ending 30 June 2021 | 2,882                             | 2,882                            | 2,437                             | 2,437                            |
| Year ending 30 June 2022 | 3,740                             | 3,740                            | 2,919                             | 2,919                            |
| Year ending 30 June 2023 | 4,504                             | 4,504                            | 3,561                             | 3,561                            |
| Year ending 30 June 2024 | 4,719                             | 4,719                            | 4,814                             | 4,814                            |
|                          | <b>18,893</b>                     | <b>18,893</b>                    | <b>15,839</b>                     | <b>15,839</b>                    |

## 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 medical benefit is an unfunded scheme.

|   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>A Liability recognised in the financial position</b> | <b>9,300</b>                      | <b>9,300</b>                     | <b>6,237</b>                      | <b>6,237</b>                     |
| <b>B Amount recognised in the profit or loss</b>        |                                   |                                  |                                   |                                  |
| Current service cost                                    | 663                               | 663                              | 801                               | 801                              |
| Interest cost   | 663                               | 663                              | 801                               | 801                              |



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## 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 | 557          | 557          | 1,469     | 1,469     |
| Remeasurement (gains)/losses arising from changes in experience               | 3,737        | 3,737        | (1,416)   | (1,416)   |
|   | <b>4,294</b> | <b>4,294</b> | <b>53</b> | <b>53</b> |
| Deferred tax (liability)/asset on remeasurement gain or loss                  | (1,288)      | (1,288)      | (16)      | (16)      |
|   | <b>3,006</b> | <b>3,006</b> | <b>37</b> | <b>37</b> |

## D Changes in the present value of the defined benefit obligation

|   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| At the beginning of the year                                    | 6,237                             | 6,237                            | 5,856                             | 5,856                            |
| Current service cost  |                                   |                                  |                                   |                                  |
| Interest cost   | 663                               | 663                              | 801                               | 801                              |
| Actual benefit payments   | (1,894)                           | (1,894)                          | (473)                             | (473)                            |
| from changes in demographic assumptions                         |                                   |                                  |                                   |                                  |
| from changes in the economic assumptions                        | 557                               | 557                              | 1,469                             | 1,469                            |
| Remeasurement (gains)/losses arising from changes in experience | 3,737                             | 3,737                            | (1,416)                           | (1,416)                          |
| At the end of the year  | <b>9,300</b>                      | <b>9,300</b>                     | <b>6,237</b>                      | <b>6,237</b>                     |

## E The principal assumptions used in determining defined benefit obligations

|                                   | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Discount rate (p.a)               | 11.75%                            | 11.75%                           | 12.54%                            | 12.54%                           |
| Long term medical increases (p.a) | 12.00%                            | 12.00%                           | 12.00%                            | 12.00%                           |
| Average Rate of Inflation (p.a)   | 10.00%                            | 10.00%                           | 10.00%                            | 10.00%                           |

### (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 10.0% p.a as at 30 June 2019 which 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.



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### (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 | 0.22413 | 0.16694 |

### (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 9 years as at 30 June 2019.

## F Quantitative sensitivity analysis for significant assumption

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

|               | Change in assumption | Impact on Defined Benefit Obligation |                                  |                                   |                                  |
|---------------|----------------------|--------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|               |                      | 30 June 2019                         |                                  | 30 June 2018                      |                                  |
|               |                      | Group/Bank                           |                                  | Group/Bank                        |                                  |
|               |                      | Impact of an increase<br>Birr'000    | Impact of a decrease<br>Birr'000 | Impact of an increase<br>Birr'000 | Impact of a decrease<br>Birr'000 |
| Discount rate | 1%                   | (8,521)                              | 10,159                           | (254)                             | 266                              |

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                    |                          | Bank                     |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                          | 30 June 2019<br>Birr'000 | 30 June 2019<br>Birr'000 | 30 June 2018<br>Birr'000 | 30 June 2018<br>Birr'000 |
| Year ending 30 June 2020 | 716                      | 716                      | 499                      | 499                      |
| Year ending 30 June 2021 | 771                      | 771                      | 539                      | 539                      |
| Year ending 30 June 2021 | 828                      | 828                      | 580                      | 580                      |
| Year ending 30 June 2022 | 887                      | 887                      | 623                      | 623                      |
| Year ending 30 June 2023 | 948                      | 948                      | 667                      | 667                      |
|                          | <b>4,150</b>             | <b>4,150</b>             | <b>2,908</b>             | <b>2,908</b>             |

## 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.



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|                                     | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|-------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>27 Capital</b>                   |                                   |                                  |                                   |                                  |
| <b>Authorised and fully paid up</b> | <b>7,500,000</b>                  | <b>7,500,000</b>                 | <b>7,500,000</b>                  | <b>7,500,000</b>                 |

The Bank is wholly owned by the Federal Democratic Republic of Ethiopia and is a public financial enterprise.

### 28 Retained earnings

|   |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
| At the beginning of the year                | (7,231,521)        | (7,231,355)        | (4,699,492)        | (4,699,492)        |
| Opening balance adjustment                  | (69)               |                    |                    |                    |
| Adjustment in respect of tax                |                    |                    | 20,725             | 20,725             |
| Adjustment on initial application of IFRS 9 | 4,836,946          | 4,836,946          |                    |                    |
| State dividend paid                         |                    |                    | (225,955)          | (225,955)          |
| Profit/ (loss) for the year                 | (1,672,283)        | (1,672,140)        | (1,878,011)        | (1,877,845)        |
| Transfer to regulatory credit risk reserve  | (368,133)          | (368,133)          | (448,787)          | (448,787)          |
| <b>At the end of the year</b>               | <b>(4,435,060)</b> | <b>(4,434,682)</b> | <b>(7,231,521)</b> | <b>(7,231,355)</b> |

### 29 Other reserves

|   |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| At the beginning of the year  | (8,471)        | (8,471)        | 129            | 129            |
| Adjustment on initial application of IFRS 9 - equity investments measured at FVOCI (net of tax) | (1,483)        | (1,483)        |                |                |
| Change in fair value reserve-equity investment  | 16,138         | 16,138         |                |                |
| Deferred tax on unrealized gain fair value of equity instrument                                 | (4,841)        | (4,841)        |                |                |
| Re-measurement gains/ (losses) on defined benefit plans (net of tax)                            | (5,538)        | (5,538)        | (8,600)        | (8,600)        |
| <b>At the end of the year</b>   | <b>(4,195)</b> | <b>(4,195)</b> | <b>(8,471)</b> | <b>(8,471)</b> |
| Other reserves consist of:  |                |                |                |                |
| Defined benefit obligations reserve   | (14,009)       | (14,009)       | (8,471)        | (8,471)        |
| Fair value reserve - equity investment  | 9,814          | 9,814          |                |                |
|   | <b>(4,195)</b> | <b>(4,195)</b> | <b>(8,471)</b> | <b>(8,471)</b> |

Other reserves are items included under other comprehensive income (OCI). These reserves relate 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, as well as the movement of fair value measurement in respect of equity investments measured at fair value through other comprehensive income.

The other reserves are non-distributable.

|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>30 Regulatory credit risk reserve</b> |                                   |                                  |                                   |                                  |
| At the beginning of the year             | 2,120,377                         | 2,120,377                        | 1,671,589                         | 1,671,589                        |
| Transfer from retained earnings          | 368,133                           | 368,133                          | 448,787                           | 448,787                          |
| <b>At the end of the year</b>            | <b>2,488,509</b>                  | <b>2,488,509</b>                 | <b>2,120,377</b>                  | <b>2,120,377</b>                 |

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).

### 31 Legal reserve

|                               |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|
| At the beginning of the year  | 176,527        | 176,527        | 176,527        | 176,527        |
| <b>At the end of the year</b> | <b>176,527</b> | <b>176,527</b> | <b>176,527</b> | <b>176,527</b> |

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



# Development Bank of Ethiopia

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

### 32 Non-controlling interest

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

|                                | Group<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Ethio Capital & Investment PLC | 1                                 | 1                                 |
|                                | <b>1</b>                          | <b>1</b>                          |

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

|                                |              |              |
|--------------------------------|--------------|--------------|
| Ethio Capital & Investment PLC | -0.01        | -0.01        |
|                                | <b>-0.01</b> | <b>-0.01</b> |

### Transactions with non-controlling interests

During the period 2017/18, 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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|  |       | Profit before tax                 | (1,491,004)                      | (1,490,861)                       | (1,675,451)                      |
| <b>Adjustments for non-cash items:</b>                       |       |                                   |                                  |                                   |                                  |
| Gain/(Loss) on foreign exchange dealing and fluctuation      | 8     | (242,019)                         | (242,019)                        | (59,497)                          | (59,497)                         |
| Depreciation of property, plant and equip                    | 21    | 72,498                            | 72,491                           | 75,202                            | 75,200                           |
| Depreciation of investment property                          | 19    | 3,906                             | 3,906                            | 8,995                             | 8,995                            |
| Amortisation of intangible assets                            | 20    | 6,318                             | 6,318                            | 4,578                             | 4,578                            |
| Net gain/(loss) on disposal of property, plant and equipment | 21    | (1,202)                           | (1,202)                          | (2,964)                           | (2,964)                          |
| equipment through donation (2018: write-off)                 | 21    | 3,518                             | 3,499                            | 15,520                            | 15,520                           |
| bond   |       | (204,288)                         | (204,288)                        |                                   |                                  |
| Impairment on loans and receivables                          | 15    | 4,187,688                         | 4,187,688                        | 4,007,654                         | 4,007,654                        |
| Impairment on other assets                                   | 18    | 408,110                           | 408,110                          | (68,059)                          | (68,059)                         |
| Retirement benefit obligations                               | 26    | 4,153                             | 4,153                            | 2,701                             | 2,701                            |
| <b>Changes in working capital:</b>                           |       |                                   |                                  |                                   |                                  |
| -Decrease/ (Increase) in loans and advan                     | 15    | (10,194,064)                      | (10,194,064)                     | (5,854,777)                       | (5,854,777)                      |
| -Decrease/ (Increase) in other assets                        | 18    | 325,102                           | 325,934                          | (2,218,569)                       | (2,218,430)                      |
| -Decrease/ (Increase) in investments security                |       | 584,394                           | 584,394                          |                                   |                                  |
| -Increase/ (Decrease) in customer's depo.                    | 22    | (312,253)                         | (312,253)                        | 122,723                           | 122,723                          |
| -Increase/ (Decrease) in other liabilities                   | 25    | 711,421                           | 711,301                          | 1,503,765                         | 1,503,742                        |
|  |       | <b>(6,137,723)</b>                | <b>(6,136,893)</b>               | <b>(4,138,176)</b>                | <b>(4,137,829)</b>               |

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

|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Proceeds on disposal   | 1,266                             | 1,266                            | 4,076                             | 4,076                            |
| Net book value of property, plant and equipment disposed (Note 21) | (64)                              | (64)                             | (1,112)                           | (1,112)                          |
| <b>Net gain/(loss) on sale of property, plant and equipment</b>    | <b>1,202</b>                      | <b>1,202</b>                     | <b>2,964</b>                      | <b>2,964</b>                     |



# Development Bank of Ethiopia

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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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|----------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Board of Management  |                                   |                                  |                                   |                                  |
| Executive Management | 2,679                             | 2,679                            | 2,630                             | 2,630                            |
|                      | <b>2,679</b>                      | <b>2,679</b>                     | <b>2,630</b>                      | <b>2,630</b>                     |

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

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

#### 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 2019.

|  | Group<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Salaries & other short-term benefits (executive) | 2,528                             | 2,528                            | 3,378                             | 3,378                            |
| Post-employment benefits (executive management)  | 286                               | 286                              | 249                               | 249                              |
| Board fees                                       | 323                               | 323                              | 309                               | 309                              |
|  | <b>3,137</b>                      | <b>3,137</b>                     | <b>3,936</b>                      | <b>3,936</b>                     |

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

### 35 Man power Stock

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

|  | Bank<br>30 June 2019<br>Number | Bank<br>30 June 2018<br>Number |
|--|--------------------------------|--------------------------------|
| Professionals and High Level Supervisors       | 1,508                          | 1,657                          |
| Semi-professional, Administrative and Clerical | 557                            | 351                            |
| Technician and Skilled                         | 133                            | 112                            |
| Manual and Custodian                           | 122                            | 210                            |
|  | <b>2,320</b>                   | <b>2,330</b>                   |

### 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 2019 is Birr 48,147,846.68 (30 June 2018: Birr 159,241,851.15).

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 2019 is Birr 177,398,302.36 (30 June 2018 : Birr 9,527,495.51).



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### 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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Performance guarantees          | 62,215                            | 62,215                           | 64,416                            | 64,416                           |
| Letters of credit for customers | 3,484,065                         | 3,484,065                        | 4,784,631                         | 4,784,631                        |
|                                 | <b>3,546,280</b>                  | <b>3,546,280</b>                 | <b>4,849,046</b>                  | <b>4,849,046</b>                 |

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

### 37 Commitments

|                   | 11,342,154        | 11,342,154        | 20,189,855        | 20,189,855        |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| Loan commitments  | 11,342,154        | 11,342,154        | 20,189,855        | 20,189,855        |
| Other commitments | 35,179            | 35,179            | 82,840            | 82,840            |
|                   | <b>11,377,333</b> | <b>11,377,333</b> | <b>20,272,695</b> | <b>20,272,695</b> |

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<br>30 June 2019<br>Birr'000 | Bank<br>30 June 2019<br>Birr'000 | Group<br>30 June 2018<br>Birr'000 | Bank<br>30 June 2018<br>Birr'000 |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| No later than 1 year                          | 25,797                            | 25,621                           | 29,318                            | 29,037                           |
| Later than 1 year and no later than 2 years   | 59,334                            | 58,928                           | 32,248                            | 31,940                           |
| Later than 2 years but not later than 5 years | 68,234                            | 67,767                           | 105,530                           | 104,532.47                       |
| <b>Total</b>                                  | <b>153,365</b>                    | <b>152,315</b>                   | <b>167,096</b>                    | <b>165,510</b>                   |

### 39 Events after reporting period

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

In the opinion of the Board of Management, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Group and Bank as at 30 June 2019 and on the profit for the period ended on that date, which have not been adequately provided for, in the form of adjusting events.

Nevertheless, there are two material non-adjusting subsequent events which shall be required to be disclosed in the notes to the financial statements. These are set out below.





### a) Injection of additional capital

The Council of Ministers (of the Federal Democratic Republic of Ethiopia) has approved to increase the capital of Development Bank of Ethiopia from Birr 7.5 billion to 28.5 billion by injecting an additional capital of Birr 21 billion. This decision was made at the Council's extraordinary meeting held on May 7, 2020.

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

### b) The outbreak of novel coronavirus (COVID- 19) pandemic and its impact on financial reporting

Towards the end of 2019, there was an outbreak of the novel coronavirus disease (COVID- 19) pandemic, which was first identified in Wuhan, China, and this virus has subsequently spread globally at an exponential rate. The outbreak was officially declared a global pandemic by World Health Organisation (WHO) on March 11, 2020.

The disease has caused a significant reduction in social interaction and brought about considerable uncertainty and disruption in supply chains and economic activities across the globe while some public facilities have been shut down in virtually all countries, including Ethiopia, in a bid to contain the deadly spread of the virus. In other words, the outbreak of the COVID- 19 has resulted in an unprecedented level of the damage to the global economy with the impact being felt across every nation. The hardest hit sectors are air transportation, tourism, hospitality, manufacturing, horticulture, export projects, mining and energy, small and medium enterprises and the like. The financial sectors are indirectly affected with the knock-on effect of the pandemic which have badly affected their borrowers in a way that prevents them to pay them.

The Ethiopian Government and the National Bank of Ethiopia have taken/introduced various monetary and fiscal interventions/measures/stimulus to stabilize the economy affected hardly by the COVID- 19 pandemic. The interventions are in terms of remitting tax debt (including principal tax, interest and penalty) for taxpayers until fiscal year 2015 and remitting interest and penalty for taxpayers for the period 2016 to 2019, making available adequate liquidity in the financial sector and allowing banks to provide support for companies with cash flow problems, particularly hotels, tourism, horticulture, manufacturing, export projects, small and medium enterprises, micro-finance institutions and agricultural cooperatives/unions whilst containment measures are in force. Other support measures included reducing interest rate and fee and commission, providing debt payment moratorium/ holiday for at least 3 months effective from 1 April 2020, writing off interest accrued from 1 April to 30 June 2020, amortizing unpaid interest due for an extended period and easing of prudential banking guidelines related to relaxing of non-performing loans and provisioning directive and others.

In preparing the financial statements, the management has determined that the events that followed the outbreak including the various actions taken by the governments, central banks and other authorities across the world are non-adjusting subsequent events in terms of IAS 10 - Events after the Reporting Period. Accordingly, the financial position and results of operation as at and for the year ended 30 June 2019 have not been adjusted to reflect the knock-on effect of COVID- 19 pandemic.

The Board of Management has considered the potential implications of this outbreak on the Group's and Bank's activities and operations and are taking various measures to ensure that the Group's and Bank's ability to continue to operate is not affected significantly. More importantly, the extent of the COVID- 19's effect on the Group's and Bank's operational, financial and cash flows will depend on a number of future developments, including the duration, speed, frequency and intensity of the pandemic, as well as the effectiveness of the package of monetary and fiscal interventions taken by governments and central banks, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, the overall financial impact of this pandemic cannot be reasonably estimated at this point in time. The various measures instituted by the government to contain the pandemic have not curtailed the Group's and Bank's ability to continue to operate and serve their customers. The Board of Management is confident that the Group and Bank will continue to operate into the foreseeable future.

However, if the outbreak continues on its current trajectory and the package of monetary and fiscal measures taken by the Ethiopian Government, National Bank of Ethiopia, other authorities and Development Bank of Ethiopia do not bear fruit, such impacts, as a result of knock-on effect, could grow and become material to the Group's and Bank's financial position, financial performance and cash flows in the future periods. Specifically, the pandemic will have far-reaching repercussions in terms of increasing provisions/allowance for expected credit losses (ECLs) for financial assets measured at amortized cost and reporting reduced net interest income margin and fee and commission as well.

To sum up, the Group and Bank are currently evaluating and monitoring the impact of COVID- 19 and taking the necessary measures to mitigate the risks on its staff, customers and businesses, particularly on loans and advances to customers that may be impacted, in a holistic manner.

