# LION INTERNATIONAL BANK S.C.

## ANNUAL REPORT

For the year ended
June 30, 2011

## Figures for Quick Reference

Birr in million

| S.N | Description | 2007/08 | 2008/09 | 2009/10 | 20010/11 |
|---|---|---|---|---|---|
| 1 | **Capital** | | | | |
| | Subscribed | 432 | 432 | 432 | 432 |
| | Paid Up | 176.6 | 193.6 | 204.1 | 292.6 |
| 2 | **Deposits** | **375** | **703.6** | **1,017.5** | **1,297.3** |
| 3 | **Loan and Advance** | | | | |
| | Approved | 172.7 | 620.0 | 202.3 | |
| | Disbursed | 155 | 305.7 | 166.8 | 472.8 |
| | Collected | 60 | 227 | 86.8 | 514.8 |
| | Outstanding Loan | 180.3 | 470 | 587.1 | 676.3 |
| 4 | **Income and Expense** | | | | |
| | Total Income | 31.5 | 52.15 | 114.4 | 141 |
| | Total Expense | 32.3 | 48.4 | 64.7 | 79.2 |
| | Gross Proàt/Loss | 0.8 | 3.74 | 49.7 | 61.8 |
| 5 | **Asset and Liability** | | | | |
| | Total Assets | 574 | 952.4 | 1,363.6 | 1,808 |
| | Total Liabilities | 403 | 760.7 | 1,121.8 | 1,455 |
| 6 | **Others** | | | | |
| | No. of Depositors | 17842 | 30900 | 40360 | 59,314 |
| | No. of Shareholders | 5900 | 6391 | 6459 | 6,459 |
| | **No. of Employees** | 435 | 504 | 536 | 572 |

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# Board of Directors


Berhanu G. Medhin (PhD)
Chairperson


Fissehatsion Arefayne
Vice Chairperson


Tsegay Alemayeh
Board Member


Kibrom G.Mariam (Col.)
Board Member


Berhanu Kebede
Board Member


H.Selassie Yihdego
Board Member


Tigist Girmay
Board Member


Wassihum Gebru
Board Member


Abrham G.Amlack
Board Member


G.Medhin G.Hiwot
Board Member


Legesse Tegegn (Col.)
Board Member

## Vision

To be the leading bank in Ethiopia.

## Mission

We are committed to maximizing customers' satisfaction and its shareholders value through quality and diversified banking service delivery, technological leadership and motivated employees.

# Executive Managment

Negussu G.Egziabher

President

Meressa G.Mariam

Vice President - Corporate Services

Elias Tekle

Vice President - Operations

Daniel G.Egziabher

Director - Business Development & Corporate Planning Department

Michael Atsedewoin

Director - IT Services Department

Tekea Embale

Director - International Banking Department

Eskindir Debekulu

Director - Credit Department

Genet Hagos

Director - Internal Audit Department

Sileshi Tigabu

Director - Finance Department

## Corporate Values

- Dedication to customer satisfaction;
- Confidentiality;
- Transparency;
- Learning organization;
- Professionalism;
- Striving to employees' satisfaction; and
- Social responsibility.

## Motto

LIB "key to success"

# MESSAGE FROM THE BOARD CHAIRPERSON

Berhanu Gebremedhin (PhD),
Board of Directors' Chairperson

On behalf of the Board of Directors and on my own behalf, I am pleased to share the following brief message on the operational and financial performances and status of our bank, Lion International Bank S.C., for the fiscal year ended June 30, 2011.

About a year ago, right after the new board commenced operation, I recall presenting a brief message to you, esteemed shareholders, in which I emphasized that the Board's prime agenda would be institution building based on three principles: (1) building, strengthening and nurturing an independent management, (2) ensuring that the Board performs its governance role effectively, efficiently and in a supportive manner and (3) creating conducive environment which creates harmony and mutual understanding among shareholders, and builds an army of motivated staff. It is my great pleasure to report to you now that due to the relentless effort of all Board members we have made impressive progress on all of these three fronts.

The Bank has now a complete senior management committee which is striving to operate its managerial function independently of any interference from Board members or shareholders. The management operates based on ethical business principles centering on the objective of maximizing shareholder values. As part of its governance role, the Board is providing all the support and encouragement to management that is necessary for effectiveness, efficiency and customer satisfaction.

I am extremely pleased to note that the Board has been deliberating on governance and policy issues honestly, transparently and in a solid team spirit. Consensus building has been the basic principle in Board deliberations. I am very pleased to report to you that the Board has created common understanding and solidarity, and is operating in unison.

The effort that Board members made to create harmony and mutual understanding among shareholders is bearing fruit. The Board Chairperson, a member of the Board and the then A/President held a major meeting with shareholders and customers in Mekelle in which more than 370 participated. Several useful inputs were obtained from participants. In addition to this, two meetings were held with selected shareholders in Addis Ababa early in the year. We have received several useful inputs from participants. We believe the meetings in Addis Ababa have created fertile ground for mutual understanding between the bank and shareholders, and among shareholders. Such meetings of consultation will continue in the future. We have acted on most of the major concerns raised by the participants in these meetings, including expanding Letter of Credit (L/C) services in our branches. We have received an overwhelming feedback that shows that such outreach meetings are highly needed and very useful. Similar meetings are planned to take place in other areas during the current fiscal year.

Our efforts to convince shareholders to become beneficiaries of our services are also bearing fruit. Many of our major shareholders are now beneficiaries of our services. The demand for our services is increasing day by day. I want to assure you that we will continue to do our best to reach out to our shareholders.

The Board has made several important and key steps to build an army of motivated staff. The Board commissioned a study on a new organizational structure, job classification and grades, and salary structure. After careful deliberations on the outcome of the study, the Board has approved a new organogram, job classification and grades, and salary structure. Accordingly, all efforts have been made to link work with appropriate staff. A new salary structure that we believe will make us competitive in the sector for a few years to come has been approved. On average a salary increase of 37% has been approved to staff.

In order to create spirit of ownership and belongingness, and based on the request of staff, the Board has permitted all willing staff to buy shares of the Bank using their provident fund. Our assessments so far indicate that these measures have helped build the moral and sense of ownership of our staff. I also want to assure you that we are doing our best to develop an enhanced sense of responsibility among our staff. Every staff member is expected to ask not what the Bank can do for her/him, but also what she/he should do for the Bank. We will continue our efforts in this regard.

Coming to specific performance indicators of our Bank, I am pleased to report that LIB has performed quite well in all aspects of its operations during the fiscal year 2010/11. LIB attained a gross profit of Birr 61.80 million and net profit after tax of Birr 43.75 million, registering an increase of 24.47% and 10.59%, respectively, compared to the previous year. This gross profit is achieved after our bank paid the windfall tax of Birr 42.6 million. Moreover, consistent with the government regulation, our bank has bought government bonds worth Birr 164.9 million.

As of June 30, 2011, the total assets of the Bank stood at Birr 1,808.05 million, exhibiting a growth of 32.59%, which strengthened its asset base. The Bank has also successfully increased its customer's base from 41,185 to 59,314, registering a growth rate of 44%. LIB's paid up capital has increased from Birr 204.17 million as of June 30, 2010 to Birr 292.65 million as of June 30, 2011 showing a growth rate of 43.34%.

Five new branches have been opened in the fiscal year, three of them in Tigray, one in Dessie, and another one in Addis Ababa. The number of our branches stands now at 29. The number of shareholders grew to over 6,400, paving the way for the Bank to be the true public Bank in the country. The bank has also mobilized a promising deposit of Birr 1,297.37 million, and granted loans of Birr 676.33 million which surpasses the preceding year performance by 15.2%.

Our Bank is the first in the country to start late hour service that lasts until 7:00 pm in the evening. The late hour service initiative that the new Board brought into effect is proving unequivocally that there indeed was a need for such service. Most of our branches are giving this late hour service and the performance is encouraging.

The Non-Performing Loans (NPL) of the Bank stands now at 2.68% compared with the 5.6% level of last fiscal year. This shows that the Bank's is a much better health than it was a year ago. All indications are that the Bank is now in the right direction of progress to achieve its vision to be the Leading Bank in Ethiopia.

The Board strongly believes that these operational results would be enhanced further only if customers' satisfaction is maximized. Based on this, the Bank has embarked on reform programs, embracing all areas of activities. The ongoing core banking and our IT infrastructure is becoming the major focus. Rest assured that we will continue working on these and related issues to attain the inspirational vision of LIB.

Looking ahead, there are substantial uncertainties and challenges that will test the capabilities of LIB, its Board and management. The increasingly competitive financial market is expected to make the business environment more and more challenging. So, we need to improve our competitive performance by taking advantages of our responsiveness and unreserved commitment to ensure shareholders satisfaction by strengthening the Bank's stability, efficiency and reputation. We will count on your support in our effort to surmount these challenges and elevate the Bank into higher level, paving the way to realize its vision of being the Leading Bank in Ethiopia.

As I have tried to emphasize at the beginning of my message, our focus in 2010/11 was on laying the basis for strong institution building. In 2011/12 we will continue our efforts in the area of institution building while also enhancing our efforts to improve our service delivery and raising profitability of the bank. In line with this, we have started a business re-engineering process (BPR) using our own staff. The progress of the BPR to date is encouraging.

Based on the feed backs and suggestions we received from our shareholders and customers, we have decided to expand our branch network in Addis Ababa. In line with this, we expect to open five branches this year in selected areas in Addis Ababa. We believe that our branch expansion strategy will boost the profitability of the bank.

Many actors have contributed to the performance of our Bank in the fiscal year. Hence, on behalf of the Board and on my own behalf, I like to express my heartfelt gratitude to all shareholders and customers who contributed their share by providing feedbacks and working with the Bank to achieve its targets. The National Bank of Ethiopia (NBE) has been on our side in all our efforts and I like to thank the NBE for their support. I also like to thank the Documents Authentication and Registration Office for their collaboration.

I also like to acknowledge the contributions of the staff of LIB and its management during 2010/11. I encourage staff and management to build on their good work to achieve the targets for 2011/12. More hard work is foreseen in areas of customer services, work efficiency and cost saving.

I would like to take this opportunity again to applaud and express my heart felt appreciation to my colleagues, Board members. I believe strongly that we will continue building on the spirit of consensus, team building, and joint effort. I also believe that the Board Room will continue to be a room where various ideas are tabled and deliberated on in an open, honest and transparent way. Innovations to elevate the Bank should continue to spring from the Board room.

In conclusion, I would like to reiterate my call to shareholders, customers, staff, and management to strengthen their association with and commitment to the Bank. Together, we will realize the vision of LIB, to be the Leading Bank in Ethiopia.

I thank you,

Berhanu Gebremedhin (PhD),
Chairperson, Board of Directors

# MESSAGE FROM THE PRESIDENT

Negussu G.Egziabher,
President

Taking this opportunity, I am pleased to announce that the Lion International Bank S.C. has continued to achieve an outstanding financial and operational performance in the year—2010/11. Indeed, this is a herald that enshrines with its profitable operation for the second time. To mention few of the Bank' s successful achievements, it has registered profit before tax of Birr 61.80 million, which showed an increase of 24.47 % over the previous year performance. It is an all-pervasive issue that the 2010/11 fiscal year was accompanied with an economic climate fraught with more challenges than opportunities. Inter alia, the major challenges that encountered the banking industry during the ended fiscal year include: ever increasing inflation rate, though lately waived the long-lasting imposition of credit cap and the implementation of the new National Bank of Ethiopia' s directive on marketable securities (bill bond). Even though the impact inflicted was so feeble, the emergence of new banks in the market and the aggressive move of existing banks in branch expansion had played role in stiffing the competition among banks. Such a situation was really a challenge for banks, particularly, for those young banks like us which are striving to stand by themselves winning the competition.

Notwithstanding the challenges pinpointed hereinabove, the removal of the arduous credit cap and the availability of sufficient foreign currencies in the market were taken as opportunities by the banks to maximize their profit. It was within such environment that Lion International Bank S.C. has successfully managed to register encouraging achievements in every aspect of its services and secure profitability for the second time.

The up-and-coming move of the Bank in maintaining its profitability; the rise of total outstanding loans and advances to Birr 676.33 million with a growth rate of 15.81 %; and the encouraging reduction of NPLs to a minimum level of 2.68%, which is much lower than the required 5% by the NBE are credentials that testify that the Bank's foundation is established on supreme-architects. It ought to be noted that these encouraging achievements should not be construed as climax points to the satisfaction of our esteemed shareholders and customers; rather, these should be considered as a launching pad for our forthcoming performance which is crafted based on the interest of our honored shareholders and customers.

Not disregarding the aforementioned achievements, the corporate total deposit has reached Birr 1,297.37 million, while the number of depositors increased to 59,314 which has showed 18,129 increment or 44%. The increment of deposit and depositors imply that our customers and the public at large continue to put their confidence in us. Concerning our service outlets, by managing to implement the corporate strategic plan of our Bank by the end of the fiscal year the total number of branches had reached 29. We have also a plan to open additional branches in Addis Ababa and regional towns in the coming 2011/12 fiscal year.

Indeed, during the fiscal year, the Bank was successful in developing and implementing new services and products, which enhance its services delivery and maximize customers' satisfaction. We are providing late-hour banking services which extended to 13 hours long a day for six days a week. We feel proud to be a vanguard in this regard in the banking industry.

For the Bank to remain strong and competitive in the industry, I can assure you that the management and the whole staff are highly committed to discharge their duties and responsibilities. In this connection, we have evaluated all our strengths, weaknesses, threats and opportunities upon scanning the global and local economic climate and with extreme commitment of the Board Directors, management and staff we have set a stretched and ambitious goal to leap the Bank in to a better position.

In a nutshell, we are inquisitive of our honored shareholders' and customers' needs; thus, we have girded our quivers to be responsive in time of need and place of niche whatsoever. As an instrument to achieve our mission, we shall provide heed to enhance local deposit and foreign reserve capacity. Subsequently, it is planned to increase depositors' accounts, provide quality customer services, and to boost branch expansion in areas that are feasible and wherein we are not yet represented.

Finally, on behalf of the management and myself, I would like to guarantee the shareholders and stakeholders that we are dedicated to bring the plan into reality. I extend my sincere gratitude to our esteemed customers for their loyalty, honesty and confidence in us and to all staff, management and Board of Directors for the commitment they demonstrated and outstanding results. I would also like to thank all institutions and individuals for their active contributions to the fulfillment of the Bank's objectives.

Regards,

Negussu G.Egziabher,
President

# Board of Directors' Report

## FINANCIAL PERFORMANCE

Lion International Bank has once again registered a remarkable business performance in its fourth operational year. Despite the macroeconomic environment that posed multiple challenges for the banking industry, the Bank has managed to demonstrate a significant achievement in every respect.

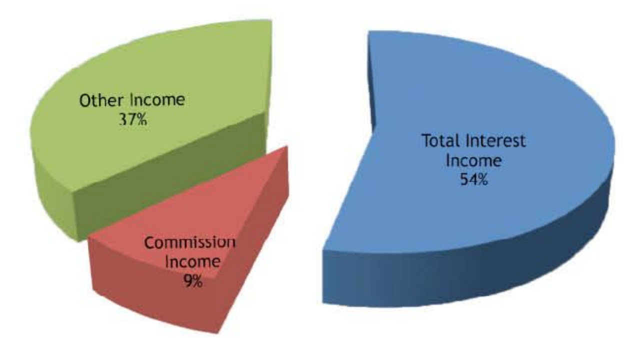
**Revenues:** The total revenue of the Bank stood at Birr 141.02 million during the fiscal year 2010/11, registering an increment of 27.01 percent from the preceding fiscal year's performance. The growth was mainly attributed to the rise of interest income from loans and advances and service charges from international banking operation service.

**Net Interest Income:** The aggregate interest income (Birr 75.77 million or 53.73 percent of the total revenue) rose by 34.41 percent from the comparative period of last year, which can mainly be explained by the sizeable growth of interest income generated from loans and advances; while net interest income of the Bank (Birr 48.63 million) surpassed the prior year's collection by 32.92 percent (Birr 12.05 million).

**Non-Interest Income:** Non-interest income for the period under review constituted Birr 65.25 million grew by 19.37 percent from the preceding year. Non-interest income accounted 46.27 percent of the total revenue of the Bank. The notable growth of non-interest income was due to increases in other income (23.93 percent) and commission, fees and charges (3.75 percent) as compared to prior comparative period.

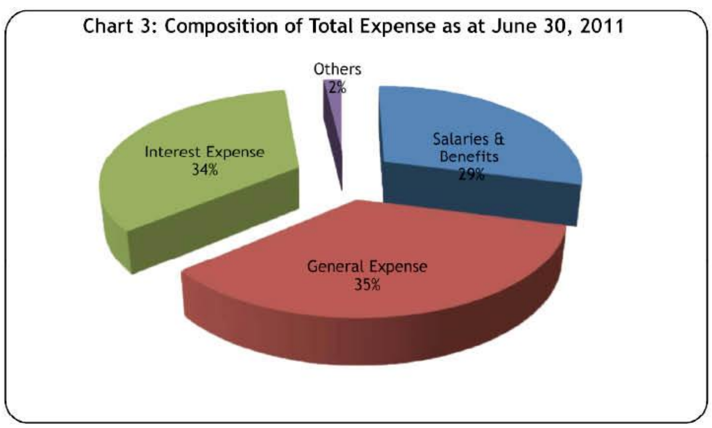
One could not appreciate the encouraging revenue earning during the fiscal year ended June 30, 2011 unless it is seen in light of previous achievements. Hence, it is worth-mentioning to recall the trend of the past few years. Just to enlighten ones understanding, the trend of the revenue earning of the LIB, is portrayed for the periods from 2007 to 2011.

Chart 1: LIB's Revenue as at June 30,2011



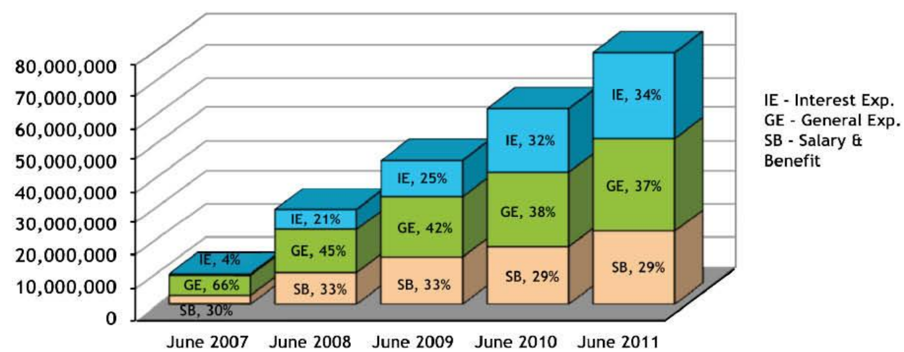

## Operating Expenses

The total operating expense of the Bank constituted Birr 79.22 million at the end of June 30, 2011, which is 29.07 percent higher than the preceding year' s total. The rise was justified by the growth of the Bank's business activities coupled with deposit mobilization, increase in salary and benefits and others. The annual increment of interest and non-interest expenses is 37.16 percent and 25.21 percent, respectively. The increase in non-interest expense is mainly attributed to the growth in general expenses by 47.68 percent and salaries and benefits by 27.40 percent. Interest expense, which comprised 34.26 percent of the total expense, significantly increased as result of growth of deposit (saving deposits by 39.53 percent, for instance).



The following charts depict the composition and trend of total expense of the Bank. As portrayed in the chart, the interest expense is steadily increasing throughout the periods under review owing to deposit mobilization effort of the Bank while a declining trend was observed with respect to general expense.

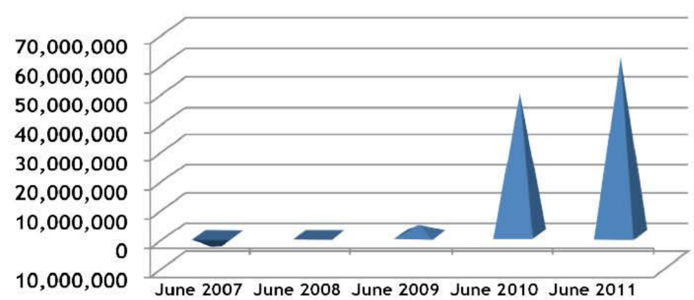
**Chart 4: Trend and Composition of Total Expense from 2006/07 to 2010/11 FY**




## Profit-Loss Analysis

In 2010/11 fiscal year, the Bank's profit before tax climbed to Birr 61.80 million surpassing the preceding year's performance by 24.47 percent. The growth in interest income can be mentioned as the principal contributing factor. As depicted under the performance of the Bank from the year 2007 through 2011 witnessed robust growth for the successive years.

**Chart 5: Trend of Profit-Loss**



## Balance Sheet

## Assets:

As of June 30, 2011, the Bank's total assets reached Birr 1,808.05 million, exhibiting a 32.59 percent growth as compared to the previous year closing balance, which was mainly explained by the remarkable growth of the Bank's outstanding loans & advances.

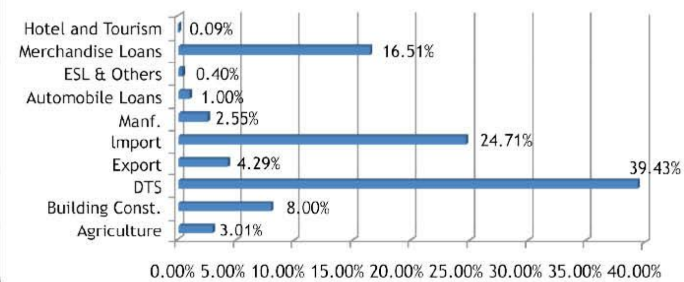
Besides, marketable securities played their part for the increment. Out of total assets of the Bank loans and advances constituted 36.86 percent followed by cash on hand 33.18 percent and bank balances with NBE 9.09 percent; the remaining represented other asset items.

## Loan Portfolio

Outstanding Loans and Advances at the end of the fiscal year is Birr 676.33 million indicating a growth of 15.81 percent. According to major portfolio of finances, domestic trade and services, foreign trade import and export, merchandise, building and construction sectors took 39.43 percent, 29 percent, 16.51 percent, and 8 percent of the total outstanding loan balance, respectively. Type wise, term loans comprised 69.80 percent of the total outstanding loans and advances followed by merchandise and overdraft loans, 16.51 percent and 13.69 percent.

Meanwhile, the long lasting lending restriction has had a significant role in shaping the loan to deposit ratio.

Chart 6: Composition of Outstanding Balance of Loans & dvances by Sector

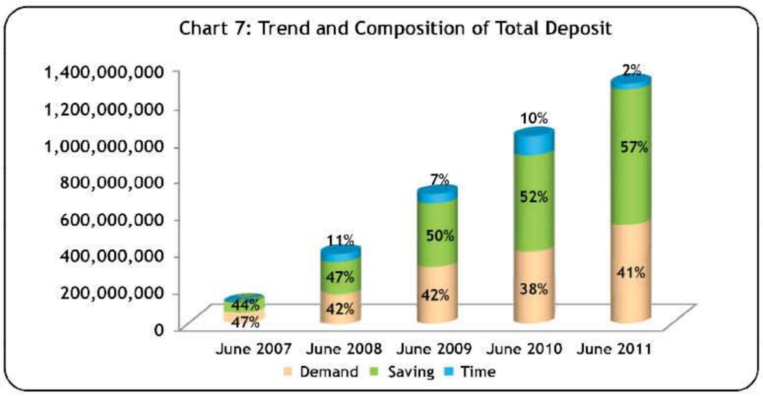


## Liabilities:

The total liability of the Bank by the end of the financial year is Birr 1,455.14 million, which is higher than last year figure by 29.71 percent, the major contributing factor for the increment is the rise of customers' deposits by 27.49 percent. Customers' deposit, which comprised 89.16 percent of the total liability of the Bank, remained the crucial source of fund for the Bank.

The Bank's number of depositors significantly increased by 46.9 percent and the total number reached 59,314 by the end of the fiscal year. The increment in the number of depositors and deposit witnessed that our customers are putting their confidence on our Bank.

Out of the total deposit, saving deposit constituted 56.51 percent (Birr 733.18 million) while demand deposit was Birr 536.93 million (41.39 percent) and time deposit Birr 27.27 million (2.10 percent). Both demand and saving deposits registered a 39.11 percent increment as compared to the preceding year performance. This can be considered as encouraging achievement indicating that the Bank kept winning the public confidence since its establishment.




## Capital Adequacy:

The capital and reserve status of the Bank increased by 45.96 percent, with a total amount of Birr 352.92 million. Similarly, the paid-up capital, the distinguished strength of the Bank, reached Birr 292.65 million or 67.64 percent of the total subscribed capital (boosted by 43.34 percent compared to last year) as the number of shareholders grew over 6,400. The remarkable rise in the paid-up capital of the Bank would have wide-ranging effect on its operational performance and image. Primarily, it would enable the Bank to meet its obligations. Secondly, it would have the effects of bolstering and maintaining the confidence and trust of customers and at the same time augmenting its capacity to mitigate and bear risks. Finally, the Bank's single borrowers limit would grow, which would have a beneficial windfall of increasing the volume of loans hence mopping up the excess liquid funds.

## International Banking Operations

International banking, as one of the core lines of operation, generated a significant portion of revenue for the Bank. It exhibited a remarkable growth in total revenue generating an increment (138.62 percent) compared to the previous year. However, this gain was mainly offset by windfall profit tax, which reduced the net gain to 31.63 percent.

In general, international banking operation contributed 66.31 percent of the total revenues and 76 percent of before tax profit of the Bank, which is still remarkable.

In a bid to enhance the service delivery system, the decentralization of international banking activities commenced in five city and outlying branches, i.e., Merkato, Raguel, Gofa, Mekelle, and Mekelle Market Branches. This process will continue to embrace the remaining branches within the next fiscal year.

## PERFORMANCE INDICATORS

**Liquidity Position:** The loan to deposit ratio, describing the proportion of the total deposits extended to financing loan demands, was 52.13 percent. With its loan to deposit ratio, the Bank still has wide room to grow and/or enhance its income and hence profit in the future.

**Capital Adequacy:** The capital adequacy ratio of the Bank as of June 30, 2011 was 38 percent, which was in excess of the required ratio of 8 percent as per the directive of the NBE, reflecting the soundness of the Bank' s financial position.

**Reserve Requirement:** Mandatory reserve requirement of the total deposit was only 15 percent while the Bank' s reserve deposit, payments and settlement accounts kept at the NBE as of June 30, 2011 stood above the regulatory requirement.

**Earnings:** Returns on assets (ROA) and returns on equity (ROE) decreased by 3.90 percent and 20.78 percent from respective figures of the last fiscal year. The rationale for the decrease in ROE is the increase in the capital and reserve, which made the denominator (capital and reserve) much higher than the numerator.

**Non Performing Loan (NPLs):** The NPL ratio was higher than the standard set by the NBE in the preceding year 2009/10 accounting 6.57%. Enhancing the asset quality was one of the top priorities of this fiscal year—2010/11; hence, the Bank has managed to bring down the ratio to the minimum level 2.68%, which is much more lower than the supervisory requirement of 5%, a clear indication that the Bank is marching in a much better way than it was a year ago..

## Human Resources

The Bank' s human resource strategy focuses on enhancing the capability of its staff through development activities of the Bank so as to avail ethical, competent and developed employees. The development programs of the Bank are, inter alia, formal education programs, and non-classroom job trainings and creating a conducive working environment that build a sense of commitment and belongingness.

Cognizant of the fact that staffs are its key assets whose capabilities highly influence its success, the Bank organized special banking related trainings for 73 employees and sponsored the tuition fees of 40 employees who are attending relevant fields of studies at different higher learning institutions.

As of June 30, 2011, the human resource strength of LIB stood at 572 (permanent); with the exclusion of additional 68 outsourced security personnel. Out of the total permanent number of staff, clerical constituted 62.23 percent while non-clericals 37.76 percent; and the male-female composition of the Bank was 60-40 percent.

**Office Buildings:** With the objective of securing convenient office location and layout, the Bank constructed its own office buildings in Semera town. Currently, the Bank owns premises in Mekelle. Besides, the Bank is planning to acquire land in the next fiscal year in Addis Ababa in order to fulfill its long-term strategy.

**Branch Network:** LIB increased its full-fledged branch network from 24 to 29 branches within the fiscal year just ended. Out of which, eleven were located in Addis while the remaining eighteen in different towns of the country.

**Information Technology:** Lion International Bank continued its progress of networking all of its branches since the successful deployment of Delta Core Banking Solution on 2008/09 fiscal year. The Bank included a new service in collaboration with Ethiopian Commodity Exchange (ECX) regarding settlement and clearance. The new network connection system in place improved the speed and has room to add additional features. In a nutshell, the system notably increased the service quality and delivery of time.

## The Bank's Business Development Highlights

In the era of stiff competition, improving service efficiency and quality would be a prime agenda and a second to none option for winning the competition and spanning customer satisfaction in all respects. As part of it, the Bank made agreement with foreign exchange agency and placed late hour service which extended to 13 hours a day for six days a week. All these repercussions are believed to enable the Bank leap to a better position.

Based on its advocacy for fresh ideas and strategies, Lion International Bank outlined priority focus areas for 2011/2012 fiscal year as part of fulfilling the long-term vision. The plan underpins enhancing and consolidating Delta Core Banking system while supporting in-house technological innovations side-by-side. Besides, issues that revolve around the quality of service and enhancing staff capability will remain the major focus areas for the next financial year. Acquiring plot of land and its commensurate architectural building design will also be one of the top agendas of the Bank.

Finally, Lion International Bank had a remarkable year with tremendous achievements despite the multiple challenges posed throughout the year. With the planned scheme, the Bank is expecting to achieve significant milestones and secure awe-inspiring profitability once again in 2011/2012 fiscal year.

I thank you,

Berhanu Gebremedhin (PhD),
Chairperson, Board of Directors

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**International Money Transfer**
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# Auditors' Report

አማ-ኃይ የተመሰከረላቸው የሂሳብ አዋቂዎችና ኦዲተሮች
Ama-Hai Chartered Certified Accountants & Auditors

Partners
Amanuel Bahta, FCCA (U.K.)
Haileselassie G/kidan, FCCA (U.K.)

# AUDITORS' REPORT ON FINANCIAL STATEMENTS OF LION INTERNATIONAL BANK SH. CO.

We have audited the accompanying financial statements of Lion International Bank Sh. Co. which comprise the balance sheet as of 30 June 2011, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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251 911 24 34 05/251 911 50 95 45
P.O BOX: 13735

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Unqualified opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Lion International Bank Sh. Co. as of 30 June 2011, and of its financial performances and its cash flows for the year then ended and are prepared in accordance with International Financial Reporting Standards.

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

Ama-Hai Chartered Certified Accountants & Auditors
011-515 33 06/14
011-655 24 71

Addis Ababa | Ama - Hai
September 26, 2011 | Chartered Certified Accountants

# LION INTERNATIONAL BANK S.C.
# BALANCE SHEET
# AS AT JUNE 30, 2011

CURRENCY: BIRR

| ASSETS | Notes | | 2010 |
|---|---|---|---|
| Cash & balance with banks | 2h, 3 | 599,883,612 | 339,640,153 |
| Reserve with National Bank of Ethiopia (NBE) | | 172,000,000 | 135,000,000 |
| NBE bills | 4 | 164,943,000 | - |
| Foreign bank deposits | 5 | 140,801,887 | 265,874,429 |
| Loan & advances | 2d, 6 | 666,526,503 | 574,512,343 |
| Stock of supplies | 7 | 5,008,851 | 3,404,701 |
| Other assets | 8 | 28,425,716 | 14,151,747 |
| Deferred charges | 2i, 9 | 9,361,327 | 10,326,857 |
| Investment | 10 | 1,029,574 | 1,029,573 |
| Fixed assets | 2e, 11 | 20,076,127 | 19,672,630 |
| **Total assets** | | **1,808,056,597** | **1,363,612,433** |
| **LIABILITIES, CAPITAL AND RESERVES** | | | |
| **LIABILITIES** | | | |
| Deposits from customers | 12 | 1,297,373,020 | 1,017,580,198 |
| Other liabilities | 13 | 109,663,442 | 70,490,554 |
| Margin held on letters of credit | | 30,040,527 | 23,646,354 |
| Provision for taxation | 24.1 | 18,058,370 | 10,096,358 |
| **Total liabilities** | | **1,455,135,359** | **1,121,813,464** |
| **CAPITAL AND RESERVES** | | | |
| Paid up capital | 14 | 292,650,960 | 204,170,774 |
| Legal reserve | 15 | 20,826,268 | 9,889,619 |
| Retained earning | 16 | 39,444,010 | 27,738,576 |
| **Total capital and reserves** | | **352,921,238** | **241,798,969** |
| **Total liabilities, capital and reserves** | | **1,808,056,597** | **1,363,612,433** |

Berhanu G/Medhin (Phd),
Chairman, Board of Directors

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Negusu G/gziabiher,
President

# LION INTERNATIONAL BANK SH. CO.
# INCOME STATEMENT
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

| INCOME | Notes | | | 2010 |
|---|---|---|---|---|
| Interest income | 17 | 75,774,359 | | 56,375,029 |
| Less: Interest Expenses | 18 | (27,141,460) | | (19,787,928) |
| **Net Interest Income** | | | 48,632,899 | 36,587,101 |
| Commission, fees and charges | 19 | 12,818,054 | | 12,354,951 |
| Net gain from dealing in foreign currencies | 2g, 20 | 33,689,610 | | 28,359,356 |
| Other income | 21 | 18,742,360 | | 13,947,099 |
| | | | 65,250,024 | 54,661,406 |
| **Net operating income** | | | 113,882,923 | 91,248,507 |
| Provision fro doubtful debts other than loans & advances | | | (257,500) | |
| Provision for doubtful loans and advances | | | (324,688) | (4,566,497) |
| **Net interest and other income after provisions for doubtful accounts** | | | 113,300,735 | 86,682,010 |
| **OPERATING EXPENSES** | | | | |
| Salaries and benefits | | 22,995,559 | | 18,049,898 |
| General & administration | 22 | 27,607,326 | | 18,697,279 |
| Directors fee | 23 | 789,434 | | 200,000 |
| Audit fee | | 103,450 | | 80,000 |
| **Total operating expenses** | | | (51,495,769) | (37,027,177) |
| **NET PROFIT FOR THE YEAR** | | | 61,804,966 | 49,654,833 |
| **PROVISION FOR TAXATION** | 24.1 | | (18,,058,370) | (10,096,358) |
| | | | 43,746,596 | 39,558,475 |
| **LEGAL RESERVE** | 15 | | (10,936,649) | (9,889,619) |
| **NET PROFIT AFTER TAXATION & LEGAL RESERVE** | | | 32,809,947 | 29,668,856 |
| **EARNING PER SHARE OF BIRR 25** | | | 4.40 | 4.97 |

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# LION INTERNATIONAL BANK SH. CO.
# STATEMENT OF CASH FLOW
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

| OPERATING ACTIVITIES | | 2010 |
|---|---|---|
| Net profit for the year | 61,804,966 | 49,654,833 |
| Amortization of deferred charges | 2,849,429 | 668,533 |
| Depreciation | 3,765,599 | 3,199,953 |
| Prior year expense | (1,203,927) | - |
| **Operating (loss) before working capital changes** | **67,216,067** | **53,523,319** |
| Increase in stock of supplies | (1,604,150) | (849,930) |
| Increase in other assets | (14,531,469) | (946,709) |
| Increase in loans and advances | (92,338,848) | (113,851,641) |
| Provision for doubtful loans and advances | 324,688 | 4,566,497 |
| Provision for doubtful debts other than loans & advances | 257,500 | - |
| Increase in deposits from customers | 279,792,822 | 313,979,196 |
| Increase in other liabilities | 39,172,888 | 34,207,397 |
| Increase in margin held on letter of credit | 6,394,173 | 2,824,835 |
| Profit tax paid | (10,096,358) | - |
| Dividend paid | (19,900,586) | - |
| **Net cash generated from operating activities** | **187,470,660** | **239,929,645** |
| INVESTING ACTIVITIES | | |
| Acquisition of fixed assets | (4,169,097) | (5,342,945) |
| Increase on differed charges | (1,883,898) | (788,060) |
| Acquisition of NBE bills | (164,943,000) | - |
| **Net cash used in investing activities** | **(170,995,995)** | **(6,131,005)** |
| **FINANCING ACTIVITIES** | | |
| Payments for subscribed shares | 88,480,185 | 10,477,720 |
| **Net cash generated from financing activities** | **88,480,185** | **10,477,720** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 172,170,917 | 297,799,679 |
| **Cash and cash equivalents at beginning of the period** | 740,514,582 | 442,714,903 |
| **Cash and cash equivalents at end of the year** | **912,685,499** | **740,514,582** |
| **CASH AND CASH EQUIVALENTS** | | |
| Cash on hand | 279,834,834 | 236,158,941 |
| Cash and balances with National Bank of Ethiopia | 491,259,323 | 233,691,741 |
| Cash and Balances with domestic banks | 789,455 | 4,789,471 |
| Cash and balances with foreign banks | 140,801,887 | 265,874,429 |
| | **912,685,499** | **740,514,582** |

# LION INTERNATIONAL BANK SH. CO.
# STATEMENT OF CHANGE IN SHAREHOLDERS EQUITY
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

| | Paid up Capital | Legal Reserve | Retained Earnings | Total |
|---|---|---|---|---|
| Balance as at 1 July 2009 | 193,693,054 | - | (1,930,280) | 191,762,774 |
| Contributions to subscribed capital | 10,477,720 | - | - | 10,477,720 |
| Net profit for the year | - | - | 39,558,475 | 39,558,475 |
| Transfer to legal reserve | - | 9,889,619 | (9,889,619) | - |
| Balance as at 30 June 2010 | 204,170,774 | 9,889,619 | 27,738,576 | 241,798,969 |
| Prior year expense | - | - | (1,203,927) | (1,203,927) |
| Dividend paid | - | - | (11,300,692) | (11,300,692) |
| Contribution to subscribed capital | 88,480,186 | - | - | 88,480,186 |
| NEt profit for the year | - | - | 43,746,596 | 43,746,596 |
| Transfer to dividend payable | - | - | (8,599,894) | (8,599,894) |
| Transfer to legal reserve | - | 10,936,649 | (10,936,649) | - |
| **Balance as at 30 June 2011** | **292,650,960** | **20,826,268** | **39,444,010** | **352,921,238** |

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# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

## 1. BACKGROUND

Lion International Bank (S.C) was formed in Ethiopia in 02 October 2006 and is registered as a public shareholding company in accordance with Licensing and Supervision of Banking Business Proclamation No. 84/1994 and Commercial Code of Ethiopia 1960.

The Bank' s principal activity is commercial banking.

The registered address of the bank is Yeka sub city, Kebele 12, House No. New Plaza Building, Addis Ababa.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank are stated below:-

**a) Statement of compliance**

The financial statements have been prepared in accordance with International Reporting Standards ( "IFRS" ) promulgated by the International Accounting Standards Board.

The financial statements are presented in Ethiopian Birr.

**b) Basis of preparation**

The financial statements are prepared on historical cost basis. Financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost, except for foreign currencies which are stated at closing date buying exchange rate.

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## c) Financial instruments

### (i) Classification

A financial instrument is any contract that rises to a financial asset for the bank and a financial liability or equity instrument of another party. All assets and liabilities in the balance sheet are financial instruments except fixed assets, deferred charges and shareholders equity.

The major financial instrument of the Bank is originated loans and advances.

Originated loans and advances are loans and receivables created by the Bank providing money to a debtor. Originated loans and receivables comprise deposits and other balances due from banks and loans and advances to customers.

### (ii) Recognition of financial instruments

The Bank initially recognizes financial assets and liabilities on its balance sheet on the date it becomes a party to the contractual provision of the instrument. Any gains and losses arising from changes in value of the asset are recognized from this date. When the Bank becomes a party to the contractual terms comprising a loan and as a consequence has the legal right to receive principal and interest payments on the loan, it controls the economic benefits associated with the loan. Normally, a bank becomes a party to the contractual provisions that comprise a loan (i.e., acquires legal ownership of the loan) on the date of the advance of funds or payment to third party. As a result, a commitment to lend funds is not recognized as an asset on the balance sheet.

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**(iii) De-recognition of financial instruments**

All financial assets are derecognized when the Bank loses control over the contractual rights that comprise the assets. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished.

**(iv) Measurement of financial instruments**

The Bank measures all financial instruments initially at cost, including transaction costs.

## d) Loans and advances

Loans and advances are financial instruments originated by the Bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses.

Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provision against losses which are likely to be present in any loans and advances portfolio. The Bank follows the National Bank of Ethiopia Supervision of Banking Business Directive number SBB 43/2008 in determining the extent of provision for impairment losses. The Directive classifies loans and advances into the following:

**(i) Pass loans**

Loans and advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. In general, loan and advances, which are fully secured, both as to principal and interest, by cash or cash substitute, is classified under this category regardless of past due status or other adverse credit factors.

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**(ii) Special mention**

Any loan or advance past due 30 days or more, but less than 90 days is classified under this category.

**(iii) Substandard**

Non-performing loans or advances past due 90 days or more but less than 180 days is classified under this category.

**(iv) Doubtful**

Non-performing loans or advances past due 180 days or more but less than 360 days is classified as doubtful.

**(v) Loss**

Non-performing loans or advances past due 360 days is classified as loss.

As per this directive, the provision for impairment losses is determined as follows:

| | Loan Category | Extent of Provision Required |
|---|---|---|
| 1. | Pass loans | 1% of outstanding loan balances |
| 2. | Special mention loans | 3% of the outstanding loan balances |
| 3. | Substandard loans | 20% of the net loan balance (Note) |
| 4. | Doubtful loans | 50 % of the net loan balance |
| 5. | Loss loans | 100% of the net loan balance |

Note

Net loan balance is outstanding loan balance less net Recoverable Value of collaterals.

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### e) Fixed assets

Fixed assets are stated at cost less accumulated deprecation. Depreciation is charged on straight line bases at the following rate.

| | % |
|---|---|
| Building | 5 |
| Vehicles | 20 |
| Furniture, fittings & equipment | 10 |
| IT equipment | 10 |

### f) Revenue recognition

Interest income and expense in the income statement are recognized on accrual basis.

Fees and commission income arise on financial services provided by the bank and are recognized when the services are provided to customers.

### g) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

Monetary assets denominated in foreign currencies, which are stated at historical cost, are translated at the buying exchange rates ruling at 30 June 2011. Foreign exchange differences arising on translations are recognized in the income statement.

### h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand balances and balances with the National Bank of Ethiopia, due from domestic and foreign banks on demand.

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# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

### i) Deferred charges

These are the total expenses incurred by the bank less interest earned on its savings account and time deposit during the establishment period, costs incurred during opening new branches and cost of new banking software (Delta Software). This balance is amortized over five years.

CURRENCY: BIRR

## 3. CASH AND BALANCE WITH BANKS

| | | 2010 |
|---|---|---|
| Cash on hand | 279,834,834 | 236,158,941 |
| Deposits with domestic banks | 789,455 | 4,789,471 |
| NBE-payment and settlement account | 319,259,323 | 98,691,741 |
| | **599,883,612** | **339,640,153** |

## 4. NBE BILLS

The represents cost of Bills acquired from the National Bank of Ethiopia in accordance to the directives on the Establishment and operation of National Bank of Ethiopia Bills market No MFA/NBEBILLS/001/2011. Maturity period of the bills is five years.

## 5. DEPOSIT WITH FOREIGN BANK

| | | |
|---|---|---|
| BHF Bank Frankfurt | 36,830 | - |
| CommerZ Bank AG - Frankfurt | 140,765,057 | 265,874,429 |
| | **140,801,887** | **265,874,429** |

## 6. LOANS AND ADVANCES

### Analysis by period of maturity

Maturities are expressed in terms of the original loan period to the repayment date:

| | | |
|---|---|---|
| Loans and advances due: | | |
| Within 12 months | 286,048,535 | 184,054,059 |
| After 12 months but within 24 months | 149,369,398 | 110,857,480 |
| After 24 months | 240,914,326 | 289,081,872 |
| | 676,332,259 | 583,993,411 |
| **Less:** Provision for doubtful debts | (9,805,756) | (9,481,068) |
| | **666,526,503** | **574,512,343** |

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# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

| **Analysis by sector** | | **2010** |
|---|---|---|
| Export loans | 28,986,919 | 46,869,630 |
| Import loans | 167,143,021 | 162,407,499 |
| Manufacturing & production | 17,255,541 | 22,007,425 |
| Building construction | 54,126,666 | 28,661,738 |
| Domestic trade | 266,703,835 | 238,355,562 |
| Staff & others | 2,681,700 | 1,646,326 |
| Agricultural loan | 20,375,606 | 20,438,570 |
| Merchandise loan | 111,691,275 | 59,859,774 |
| Automobile loan | 6,756,594 | 2,743,980 |
| Hotel & tourism | 611,102 | 1,002,907 |
| | 676,332,259 | 583,993,411 |
| **Less:** Provision for doubtful debts | (9,805,756) | (9,481,068) |
| **Loans and advances, net** | **666,526,503** | **574,512,343** |

## 7. STOCK OF SUPPLIES

| | | |
|---|---|---|
| Negotiable instrument | 1,949,993 | 2,276,195 |
| General supplies | 879,091 | 639,697 |
| Stock, non supplies | 24,095 | 14,253 |
| Others | 507 | 507 |
| Fixed asset in store | 2,155,165 | 474,049 |
| | 5,008,851 | 3,404,701 |

## 8. OTHER ASSETS

| | | |
|---|---|---|
| Prepayments | 3,159,666 | 3,629,999 |
| Sundry | 5,409,515 | 5,927,977 |
| Accrued income | 999,865 | 10,206 |
| Stock shortage | - | 15,409 |
| Other receivables | 19,114,170 | 4,568,156 |
| | 28,683,216 | 14,151,747 |
| **Less: -** Provision for doubtful debts | (257,500) | - |
| | 28,425,716 | 14,151,747 |

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# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

## 9. DEFERRED CHARGES

| | | | 2010 |
|---|---|---|---|
| Balance at 30 June 2010 | | 12,568,936 | 11,780,875 |
| **Add:** Additions during the year | | 1,883,898 | 788,060 |
| | | 14,452,834 | 12,568,935 |
| **Less:** Amortization | | | |
| Balance at 30 June 2010 | 2,242,078 | | 1,573,545 |
| Current year amortization | 2,849,429 | | 668,533 |
| | | (5,091,507) | (2,242,078) |
| | | **9,361,327** | **10,326,857** |

## 10. INVESTMENT

| | | |
|---|---|---|
| Lion Insurance Co. S.C. | 1,000,000 | 1,000,000 |
| SWIFT | 29,574 | 29,573 |
| | **1,029,574** | **1,029,573** |

The bank had subscribed 160,000 shares of Birr 25 per share, in Lion Insurance Co. Out of the total subscribed 40,000 shares had been paid. The bank had also purchased one share of Birr 29,574 (2,540 Euro) from Society of Worldwide Interbank Financial Telecommunication (SWIFT).

# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

## 11. FIXED ASSETS

| COST | BALANCE AT 30 JUNE 2010 | ADDITIONS | ADJUSTMENT DISPOSAL | 2010 BALANCE AT 30 JUNE 2011 |
|---|---|---|---|---|
| Motor vehicles | 8,683,672 | 561,119 | - | 9,244,791 |
| Furniture and fittings | 3,812,909 | 1,264,505 | (1,154) | 5,076,260 |
| Office & other equipment | 4,664,270 | 599,366 | (127,762) | 5,135,874 |
| IT equipments | 8,237,241 | 822,295 | 128,916 | 9,188,452 |
| Construction in progress | 1,014,345 | 705,908 | (1,009,771) | 710,482 |
| Building premise | 2,504,734 | 215,904 | 1,009,771 | 3,730,408 |
| | 28,917,171 | 4,169,097 | - | 33,086,267 |
| **DEPRECATION** | | | | |
| Motor vehicles | 5,670,372 | 1,805,572 | - | 7,475,944 |
| Furniture and fittings | 964,698 | 462,360 | - | 1,427,058 |
| Office & other equipment | 859,316 | 516,714 | - | 1,376,030 |
| IT equipments | 1,750,155 | 887,693 | - | 2,637,848 |
| Building | - | 93,260 | - | 93,260 |
| | 9,244,541 | 3,765,599 | - | 13,010,140 |
| **NET BOOK VALUE** | **19,672,630** | | | **20,076,127** |

## 12. DEPOSITS FROM CUSTOMERS

| | | |
|---|---|---|
| **Payable on demand** | | |
| Private sector | 523,872,916 | 362,295,669 |
| Public enterprises | 2,560,733 | 229,313 |
| Non bank financial | 3,407,512 | 7,362,636 |
| Co-operatives & association | 7,089,065 | 17,639,343 |
| | **536,930,226** | **387,526,961** |
| **Saving deposits** | | |
| Private sector | 680,696,683 | 501,892,440 |
| Public enterprise | 2,327,052 | 6,633 |
| Non-Bank financial institution | 14,349,684 | 7,145,406 |
| Co-operatives & association | 32,627,137 | 16,421,072 |
| | **730,000,556** | **525,465,551** |
| Foreign currency deposits | 3,175,238 | 3,832,416 |
| | **3,175,238** | **3,832,416** |
| **Term deposits** | | |
| Private sector | 23,267,000 | 67,373,260 |
| Non-Bank financial institution | - | 33,382,010 |
| Diaspora deposit | 4,000,000 | - |
| | **27,267,000** | **100,755,270** |
| **Total deposits from customers** | **1,297,373,020** | **1,017,580,198** |

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# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

## 13. OTHER LIABILITIES

| | | 2010 |
|---|---|---|
| Cash payment orders | 56,400,853 | 27,073,174 |
| Blocked accounts | 16,187,383 | 15,961,778 |
| Provision for annual leave | 1,148,391 | 828,066 |
| Local transfers payable | 12,265,075 | 13,379,676 |
| Exchange commission | 2,312,906 | 2,320,753 |
| Taxes and stamp duty charges | 523,979 | 367,732 |
| Dividend payable | 8,599,894 | - |
| Miscellaneous payable | 2,946,441 | 655,324 |
| Retention payable | 5,161,918 | 4,458,036 |
| Accruals | 1,824,082 | 5,013,828 |
| Others | 1,974,235 | 432,187 |
| Unearned LG Commission | 318,285 | - |
| | **109,663,442** | **70,490,554** |

## 14. PAID UP CAPITAL

| | | |
|---|---|---|
| Balance at 30 June 2010 | 204,170,774 | 193,693,054 |
| **Add:** Shares paid during the year | 88,480,186 | 10,477,720 |
| | **292,650,960** | **204,170,774** |

## 15. LEGAL RESERVE

Article 13(4) of the licensing and supervision of banking proclamation No. 84/1994 provides that 25% of the net profit after taxation shall be transferred to legal reserve account until the balance reaches the paid-up capital.

| | |
|---|---|
| Balance at 30 June 2010 | 9,889,619 |
| **Add:** - Current year reserve | 10,936,649 |
| | **20,826,268** |

## 16. RETAINED EARNINGS

| | |
|---|---|
| Balance at 30 June 2010 | 27,738,576 |
| **Less:** - Board of directors fee | |
| of previous years | (1,203,927) |
| Dividend declared | (19,900,586) |
| **Add:** - Net profit for the year | 32,809,947 |
| | **39,444,010** |

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# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

| | | 2010 |
|---|---|---|
| **17. INTEREST INCOME** | | |
| Interest on loans and advances | 74,768,944 | 56,043,680 |
| Interest on deposits | 5,550 | 331,349 |
| Interest on NBE bills | 999,865 | - |
| | **75,774,359** | **56,375,029** |
| **18. INTEREST EXPENSES** | | |
| Fixed deposits | 3,157,883 | 5,179,522 |
| Saving and demand deposits | 23,983,577 | 14,608,406 |
| | **27,141,460** | **19,787,928** |
| **19. COMMISSION, FEES AND CHARGES** | | |
| On letter of credit | 5,043,025 | 3,055,770 |
| On letter of guarantee | 2,420,628 | 4,521,131 |
| On local transfers and transactions | 5,354,401 | 4,778,050 |
| | **12,818,054** | **12,354,951** |
| **20. NET GAIN FROM DEALING IN FOREIGN CURRENCIES** | | |
| Gain on foreign exchange | 84,562,759 | 31,640,260 |
| Loss on foreign exchange | (8,238,481) | (3,280,904) |
| | 76,324,278 | 28,359,356 |
| **Less:** - Tax paid on windfall income | (42,634,668) | - |
| | **33,689,610** | **28,359,356** |
| **21. OTHER INCOME** | | |
| Telephone & telegraph charge | 2,255,013 | 2,195,867 |
| Service charge on L/C, IBC & TT | 14,769,251 | 10,624,853 |
| Others | 1,645,517 | 1,126,379 |
| Donation | 72,579 | - |
| | **18,742,360** | **13,947,099** |

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# LION INTERNATIONAL BANK SH. CO.
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## 22. GENERAL EXPENSES

| | | 2010 |
|---|---|---|
| Deprecation | 3,770,955 | 3,199,953 |
| Inspection & circulation fee | 16,690 | 11,251 |
| Amortization | 2,849,429 | 668,533 |
| Office rent | 7,685,798 | 6,550,596 |
| Stationery and printing | 2,140,273 | 1,242,533 |
| Communication | 3,051,901 | 2,359,590 |
| Correspondent charges | 20,357 | 64,285 |
| Advertisement and promotion | 1,161,788 | 842,297 |
| Insurance | 1,748,507 | 400,538 |
| Repair and maintenance | 635,670 | 542,755 |
| Fuel and lubricants | 1,042,696 | 1,015,069 |
| Loss on foreign exchange | 12,039 | 3,417 |
| Traveling | 277,901 | 226,944 |
| Electricity and water | 208,960 | 175,936 |
| Subscription and membership fees | 87,250 | 84,786 |
| Wages | 348,760 | 97,882 |
| Postage expenses | 38,810 | 32,393 |
| License fee | 30,026 | 68,406 |
| Transportation | 275,573 | 750,854 |
| Entertainment | 55,132 | 76,323 |
| Inauguration | 52,317 | 9,825 |
| Cleaning supplies | 53,624 | 41,361 |
| Tax expenses on interest income | 269 | 16,274 |
| Donation & contribution | 55,000 | 32,000 |
| Supplies | 54,358 | 38,163 |
| Others | 186,146 | 145,315 |
| Maintenance, support & consultancy fee | 798,313 | - |
| Transportation currencies | 948,784 | - |
| | **27,607,326** | **18,697,279** |

## 23. DIRECTORS FEE

| | |
|---|---|
| Meeting allowance | 239,434 |
| Annual directors fee | 550,000 |
| | **789,434** |

The annual directors fee represents the maximum limit allowed by the National Bank of Ethiopia on its directive No. SBB/49/2011. However, this fee is subject to approval by the shareholders general assembly.

# LION INTERNATIONAL BANK SH. CO.
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2011

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## 24. PROVISION FOR TAXATION

| | | | 2010 |
|---|---|---|---|
| 24.1 Taxable profit for the year (24.2) | | 60,194,565 | 48,983,382 |
| **Less:** Loss for year 2007 available for set off up to 30 June 2011 | | - | (7,638,240) |
| **Less**: Loss for year 2008 available for set off up to 30 June 2011 | | - | (6,857,372) |
| **Less:** Loss for year 2010 available for set off up to 30 June 2012 | | - | (833,244) |
| Profit subject to taxation | | 60,194,565 | 33,654,526 |
| 30% Provision for taxation for the year | | **18,058,370** | **10,096,358** |
| 24.2 Net profit (loss) before taxation for the year | | 61,804,966 | 49,654,833 |
| **Add**: Non-allowable expense | | | |
| Deprecation in accordance with bank's policy | 3,770,955 | | 3,199,953 |
| Entertainment | 55,132 | | |
| Donation | 55,000 | | 76,323 |
| Tax on interest income | 269 | | 32,000 |
| Provision for doubtful debts other than loans & advance | 257,500 | | 3,308,276 |
| | | 4,138,856 | 52,963,109 |
| **Less:** Allowable expense & deposit income | | | |
| Deprecation in accordance with tax proclamation No. 286/2002 | 3,539,915 | | (3,648,378) |
| Interest income on deposits as per tax proclamation No 286/2002 Article 36, sub Article 3 (Note 17) | 1,005,415 | | (331,349) |
| Board of directors' fee for year 2010. | 1,203,927 | | |
| | | (5,749,257) | (3,979,727) |
| Taxable profit | | **60,194,565** | **48,983,382** |

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# LION INTERNATIONAL BANK SH. CO.
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## 25. CONTINGENT LIABILITIES & COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letter of credit, guarantees and acceptance and forward foreign exchange contracts which are designed to meet the requirements of the Bank' s customers to ward third parties. Commitments represent the Bank' s commitments approved unutilized facilities and other commitments of the Bank.

| | | 2010 |
|---|---|---|
| **Contingent liabilities** | | |
| Letters of credit (Note (a)) | 95,857,767 | 424,077,750 |
| Guarantees issued (Note (b)) | 48,112,928 | 219,598,362 |
| | **143,970,695** | **643,676,112** |
| | | |
| **Contingent liabilities** | | |
| Undrawn loans and advances approved but not drawn | - | **26,638,012** |

### Note (a)

The Bank has a lien on the goods imported through letter of credit as the suppliers are required to send shipping documents directly to the bank.

### Note (b)

The risk exposure involved in connection with the performance guarantees issued is managed in the following manner.

- The bank has held collaterals and letters of undertaking in respect of most guarantees issued to its customers;
- Concerning guarantees issued on clean basis, upon issuance of guarantees customers are obliged to deposit advance payments and subsequent collections from their clients into a current account maintained with Bank itself under joint control of the Bank and the customer, whereby payments from such a joint account are made with the consent of the Bank and only in respect of related guaranteed contracts.

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# FOR THE YEAR ENDED 30 JUNE 2011

CURRENCY: BIRR

## 26. RISK MANAGEMENT

This note provides details of the Bank's exposure of risk and describes the methods used by management to manage such risk. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and foreign exchange risk.

### Credit risk

Credit risk, both on and off balance sheet, is managed and monitored in accordance with defined credit policies and procedures. The credit worthiness of each counterpart is evaluated and appropriate credit limits are established. To reduce individual counter party credit risk the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. Although the bank has not yet established credit limits across industries and products, it needs to review its credit exposure. The bank loans are diversified against various sectors as shown in Note 5 to the financial statements.

### Liquidity risk

Liquidity risk arises in the general funding activities of the Bank and the management of positions. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in appropriate time frame. The bank has a reasonable funding base. Funds are raised mainly from customers' deposits.

### Foreign exchange risk

Foreign exchange risks are controlled by maintaining major currencies whose exchange rate against the reporting currency has always been appreciating. The Bank settles foreign exchange transactions of customers at the exchange rate ruling on the date of the transactions. Hence, the customers bear the cost of the increase in exchange rates.

## 27. MEMORANDUM ACCOUNTS

| | | 2010 |
|---|---|---|
| Inward bills for collection-acceptance and sight | 5,435,265 | 5,887,157 |
| Outward bills for collection loans and foreign | 38,232,219 | - |

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# LION INTERNATIONAL BANK S.C.

## Head Office & Branch Addresses

### HEAD OFFICE

| Executive Management | Telephone | Fax | P.O.Box |
|---|---|---|---|
| President | 011-6 62 71 11 | 011-6 62 59 99 | 27026/1000 |
| Vice President-Operations | 011-6 62 71 12 | 011-6 62 59 99 | 27026/1000 |
| Vice President-Corporate Services | 011-6 62 71 13 | 011-6 62 59 99 | 27026/1000 |
| Board Secretary | 011-6 62 70 00 | 011-6 62 59 99 | 27026/1000 |
| Legal Division | 011-6 62 71 20 | 011-6 62 59 99 | 27026/1000 |
| Operator | 011-6 62 60 00/50 | 011-6 62 59 99 | 27026/1000 |
| | 011-6 62 60 60 | | |
| | 011-6 62 69 00 | | |
| **DEPARTMENTS/DIVISIONS** | | | |
| Credit Department | 011-6 62 60 99 | 011-6 62 71 15 | 27026/1000 |
| Finance Department | 011-6 62 89 92 | | 27026/1000 |
| International Banking Department | 011-6 62 82 82 | 011-6 62 71 14 | 27026/1000 |
| Information Technology Services Department | 011-6 62 69 69 | 011-6 62 59 99 | 27026/1000 |
| Risk & Compliance Management Division | 011-6 62 89 94 | 011-6 62 59 99 | 27026/1000 |
| Business Development & Corporate Planning Department | 011-6 18 98 59 | 011-6 62 59 99 | 27026/1000 |
| Human Resource Division | 011-6 62 89 95 | 011-6 62 59 99 | 27026/1000 |
| Branch Operations Coordination Div. | 011- 6 62 62 84 | 011-6 62 59 99 | 27026/1000 |
| Internal Audit Department | 011-6 62 62 86 | 011-6 62 59 99 | 27026/1000 |

| City Branches | Telephone | Fax | P.O. Box |
|---|---|---|---|
| ARADA | 011-1 56 97 40/41 | 011-1 57 33 64 | 27026/1000 |
| ATHELET HAILE G.SELASSIE | 011-6 63 12 15/21/56 | 011-6 63 12 18 | 27026/1000 |
| GOFA | 011-4 67 36 51/52 | 011-4 67 36 50 | 27026/1000 |
| GOTERA | 011-4 67 15 50/51/52 | 011-4 67 15 57 | 27026/1000 |
| GURDSHOLA | 011-6 46 27 41/42/37 | 011-6 46 27 60 | 27026/1000 |
| MERKATO | 011-2 78 70 48/49 | 011-2 78 70 46 | 27026/1000 |
| MESALEMIA | 011-2 78 37 97/99 | 011-2 78 83 81 | 27026/1000 |
| RAGUEAL | 011-2 13 46 44/46 | 011-2 13 46 00 | 27026/1000 |
| SENGATERA | 011-5 50 70 72/48 | 011-5 50 71 03 | 27026/1000 |
| TEKELEHAIMANOT | 011-2 75 85 26/28/29 | 011-2 75 86 38 | 27026/1000 |
| YEKA | 011-6 62 71 18/19/21 | 011-6 62 59 99 | 27026/1000 |
| **Outlying Branches** | **Telephone** | **Fax** | **P.O. Box** |
| ADAMA | 022-1 11 68 88/90 | 022-1 11 75 56 | 1277 |
| ADIGRAT | 034-4 45 50 35/34 | 034-4 45 50 33 | 428 |
| ADWA | 034-7 71 20 20/25 25 | 034-7 71 37 00 | 100 |
| AXUM | 034-7 75 20 26/27/28 | 034-7 75 20 29 | 233 |
| DESSIE | 033-1 12 53 31 | 033-1 11 58 56 | 2098 |
| ENTICHO | 034-4 49 06 39/05 69 | 034-4 49 05 70 | 121 |
| GONDER | 058-1 12 24 75/20 42 | 058-1 12 21 15 | 1149 |
| HAWASSA | 046-2 21 30 81/82 | 046-2 20 07 67 | 238 |
| HUMERA | 034-4 48 17 47 | 034-4 48 17 48 | 101 |
| MEKELLE | 034-4 41 93 60/61/62/63 | 034-4 41 93 65 | 295 |
| MEKELLE MARKET | 034-4 40 85 87/88 | 034-4 40 85 86 | 295 |
| MEKHONI | 034-4 64 05 10/11 | 034-6 64 00 39 | 01 |
| METEMA YOHANNES | 058-2 31 15 87/88 | 058-3 31 05 74 | 44 |
| SAMRA | 034-5 54 04 75/76 | 034-5 54 04 74 | - |
| SEMERA | 033-6 66 02 29/30 | 033-6 66 02 24 | 150 |
| SHERARO | 034-5 50 05 04/74 | 034-5 50 03 44 | 003 |
| SHIRE-ENDASELASSIE | 034-4 44 16 44/60 | 034-4 44 16 61 | 22 |
| WUKRO | 034-4 43 09 90/05 66 | 034-4 43 03 36 | 141 |