ANNUAL REPORT

2018/19

Cardinal Values

Vision

"To become the Bank of Your First Choice "

Mission

"We are committed in providing full-fledged and best quality commercial banking services within the pertinent regulatory requirement with due diligence to sustainable business while empowering the missing middle and discharging social responsibility by engaging highly qualified, skilled, motivated and disciplined employees and state-of-the- art information technology, adding real value to the shareholders interest and win the public trust."

Core Values

- **We value** persistence, endurance and tenacity;
- **We value** customer satisfaction;
- **We value** transparency, integrity and confidentiality;
- **We uphold** team spirit and grooming potential successor;
- **We value** total respect to customers and employees;
- **We value** competitive and motivated human resource with ever growing skills;
- **We promote** a learning and innovative organization;
- **We value** belongingness;
- **We uphold** corporate citizenship.

CONTENTS

Board of Directors

Obbo Gadissa Bultosa
Board Chairperson

Dr. Aynalem Megersa
Vice Chairperson

Dr. Firdissa Jebessa
Member

Obbo Damenu Tulu
Member

Obbo Didha Diriba
Member

Obbo Fayera Abdissa
Member

Obbo Assegid Regassa
Member

Obbo Ajema Gondel
Member

Ambassador Aman Hassan
Member

Obbo Birhanu Debela
Member

Dr. Assefa Seme
Member

Obbo Mulugeta Tujuba
Member

Obbo Solomon Geda
Board secretary

MESSAGE FROM THE CHAIRPERSON - BOARD OF DIRECTORS

Respected shareholders, Abbaa Gadaas, invited guests, observers from the National Bank of Ethiopia and Documents Authentication and Registration Agency, Ladies and Gentlemen;

On behalf of the Board of Directors and myself, I am honoured to welcome you all to the 10th Annual General Meeting of Shareholders being convened here today after the successful commemoration of our Bank's 10th year founding Anniversary all that was decorated with continuous growth. It is also a great privilege for me to present the Annual Report of the Board of Directors on key performances of our Bank for the financial year ended June 30, 2019.

Respected Shareholders, Ladies and Gentlemen;

Before going on to present the main elements of the report, I would like to point out in a nutshell the global and local situations in which our Bank had been operating during the reporting financial year. The global economic growth, which peaked up to close to 3.8% in 2017, softened to 3.2% in 2019 due to, inter alia, heightened policy uncertainty including a recent trade tensions between major economies and a deceleration in global investment as well as the lingering Brexit and tariffs on the automobile industry. Locally, the chronic foreign currency shortage and stiff competition on critical resources (deposit mobilization, human resource and convenient buildings for branch offices, to name a few) coupled with limited basic infrastructures (such as power, telecom, Internet) as well as the sporadic public unrest that continued to crop up here and there in most parts of the country – particularly so in our major operation areas – were the major challenges the banking industry in general and our bank in particular had faced.

Despite the challenges encountered, our Bank had managed to mobilize deposit of Birr 26.6 billion showing 33% growth relative to the previous year position. Similarly, the efforts made to deploy the resources have boosted the outstanding loans and IFB financing to Birr 17.4 billion recording 50% year-on-year growth. The total income of the bank surged by 31% to Birr 3.2 billion.

Ladies and Gentlemen;

At this juncture, I have a great pleasure to announce to respected shareholders that our Bank has managed to attain a record high profit of Birr one billion (before tax); earning per share stood at Birr 374; thus Birr 307 (30.7%) average dividend per share for the fiscal year is praiseworthy vis-à-vis the considerable growth (of about 49%) in paid up capital - during the period under review. The total assets of the Bank grew by 34% and reached Birr 31.78 billion. The Bank's paid up capital reached Birr 2.4 billion, as per the planned move to attain the Birr 3.00 billion paid up capital by the end of the current financial year.

With regard to branch expansion, OIB has reached a total of 265 branches adding 17 new branches during the reporting financial year. The total number of agents and ATMs reached 227 and 77, respectively, while the number of mobile users and ATM card holders reached 84,661 and 121,831, respectively. A new Core Banking System, along with data centre facilities that commensurate with the growth of the Bank, has been launched and went fully operational. These IT infrastructures coupled with skilled human resources, we believe, will create an enabling environment in enhancing efficiency in our service delivery.

The Bank has created job opportunity for 5,212 employees. In a move to building capacity of our human resource and enhancing productivity, different trainings (both local and overseas) were given for the employees during the reporting financial year in which some staff attended more than one trainings; our Bank has also effected a merit-based motivational initiatives (salary increment and bonus payment) with the view of rewarding best performers.

As the respected shareholders are well aware, our Bank had invested in nine different companies of financial and strategic importance. The Board would like to acknowledge that most of these investments in Oromia Insurance Company (S.Co.), Tsehay Industry (S.Co.), EthSwitch (S.Co.), among others, have continued to serve the purpose and are in a rewarding state.

In the fiscal year under review, our Bank has acquired 15 hectares of land from Oromia Regional State, Galan City Administration, for building modern convention and training centre which will greatly contribute to developing our human resources, which in turn contributes to the bottom line. We have also got a green light from Finfinne City Administration to acquire land for HQs construction at the area commonly known as future 'financial hub' (Senga Tera- Mexico locality). Moreover, the bid process for recruiting contractors for the planned construction at Goma Kuteba is underway even though it could not be expedited as desired due to different factors at work.

As always, our Bank has continued discharging its corporate social responsibility mainly in response to calls for development initiatives and assistance for displaced citizens. To this effect, a total of Birr 22 million was donated over the financial year to the implementation of various projects of public interest (such as Ambo Development Fund Raising Program and Beautifying Sheger Project) and assistance to the internally displaced citizens.

During the reporting financial year, the Board of Directors has conducted fourteen full board meetings (including regular and urgent meetings); equivalent number of meetings were also held by each of the three Board sub-committees. Visits to selected branches as well as shareholders were conducted– all of which have served as effective instruments for closer follow up of the Bank's operations as well as receiving constructive feedback and creating business relations with the shareholders and customers at large. In a way, the Board had passed various value-adding decisions as well as provided directions and guidance as per the policies and procedures of the Bank as well as regulatory organ's directives; the Directors have also participated in various meetings convened by ad-hoc committees of the Board meant to advance operations of the Bank.

Looking ahead, I am confident that the Board and the entire employees of OIB shall strive not only to uphold the record-high achievements thus far but also shall continue working together to take OIB to a much-greater height. To this end, preparations are underway to review the existing strategic plan and develop the third five years strategic plan of the Bank in the coming few months so as to orientate the future course of actions and sustain the growth momentum. We shall continue to improving the quality of our services, properly utilizing modern IT infrastructures, strategically expanding branch network, mobilizing resources accompanied by proportionate loans and advances, NPLs management as well as prudent expense management and working on the mind set of our employees to create a much-elaborated team workspirit across the Bank thereby continue firmly positioning OIB among the leading banks in the industry against major performance measurement parameters; we will also make a cautious move in launching the different construction initiatives in the pipeline.

Finally, I would like to extend my heartfelt vote of thanks to our honourable shareholders for their confidence and extraordinary support; esteemed customers not only for banking with OIB but also for their intact confidence during difficult times; my fellow members of the Board of Directors for their dedication and successful leadership; the Sharia Advisory Committee for their advisory role in the IFB operations; the management and the staff for their strong ties, commitment and sense of ownership; my sincere appreciation also goes to our IFRS Project Team for its commitment in the preparation of our accounts, and the external Auditor, TAY Authorized Accountants and Auditors., for the professionalism it demonstrated in auditing accounts of our Bank.

My heartfelt appreciation also goes to the National Bank of Ethiopia for its continued guidance and support. And I am grateful to other government organizations such as Documents Authentication and Registration Agency, Finfinne City Administration, and regional governments for their cooperation and steady support. Furthermore, I would like to thank different local Banks and correspondent Banks for their productive partnership and smooth working relationships.

OIB shall remain Peoples' Bank!

God Bless You All!

Gadissa Bultosa Bery

Chairperson, Board of Directors

November 24, 2019

Oromia International Bank S.C.

Senior Managment members

Obbo Abie Sano
President

Obbo Alemayehu Demissie
VP-Branch Banking

Obbo Teferi Mekonnen
VP -corporate support

Obbo Wolde Bulto
VP-Credit & Int'l Banking

Obbo Geleta Bekuma
VP-Information Technology

Obbo Berhanu Edae
Chief-Internal Audit

Obbo Ketema Mengesha
chief -Risk Mgt & Compliance

Obbo Dagnachew Negash
Director-Legal Service

Obbo Worku Lema
Advisor to the President


Obbo Faysel Yassin
Director-Int'l Banking


Obbo Gelana Leta
Director-Human Resource Mgt


Obbo Fati Haji
Director-IT Moderniza-tion Office


Obbo Endale Foye
Director-Operation & District Support

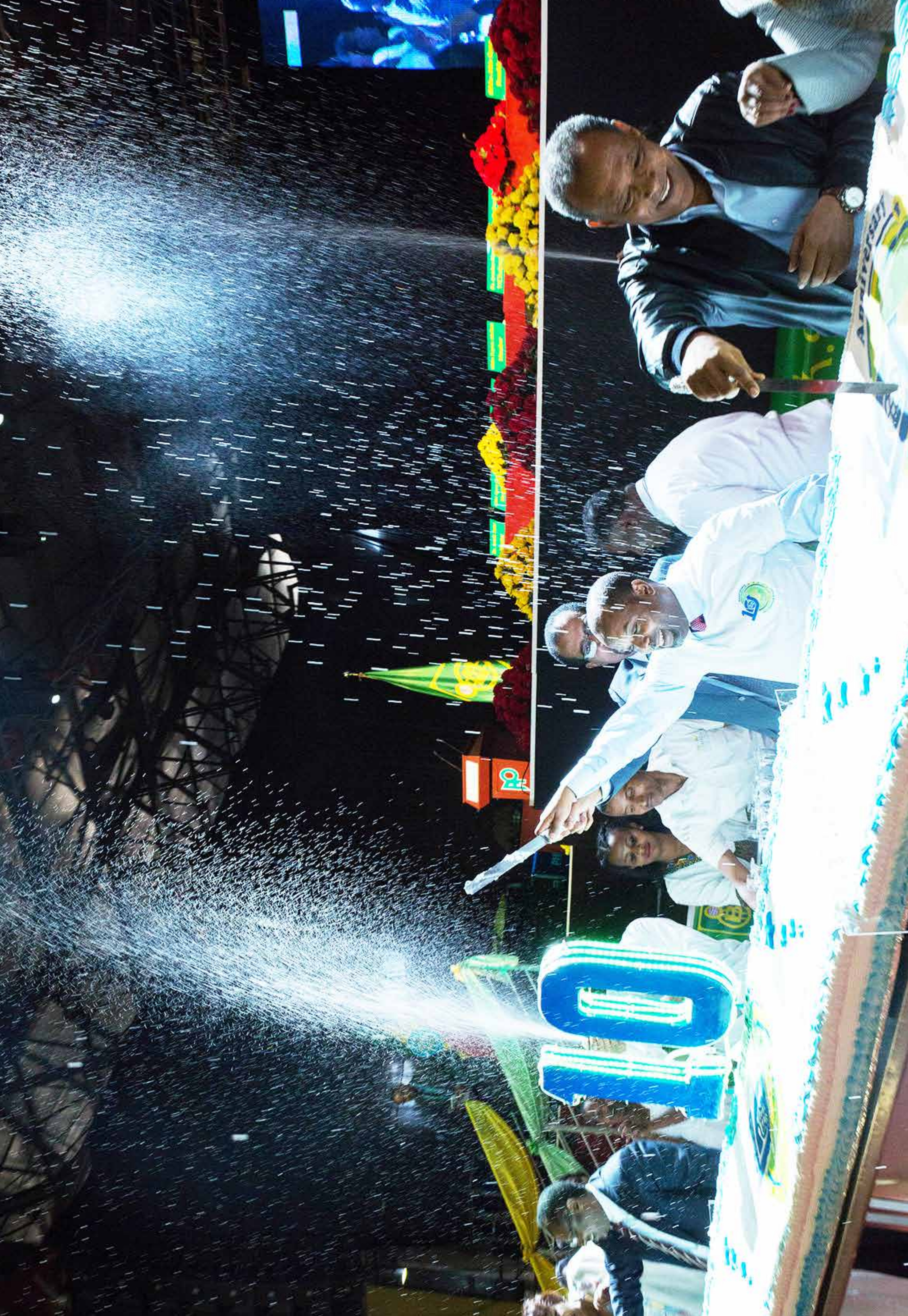

Obbo Berhanu Gonfa
Director-Procurement & Facility Mgt


Obbo Jote Kenate
Director-Accounting & Treasury


Obbo Tatek Negassa
Director-IT System Operation


Obbo Tesfaye Dheressa
Director-Credit Mgt


Obbo Chala Lema
A/Director-Strategic Mgt & Business Devt



MESSAGE FROM THE PRESIDENT

On behalf of all Management and employees of Oromia International Bank S.C.(OIB), I feel honored to kindly welcome our respected shareholders, distinguished invited guests, OIB Management and the stakeholders to this colorful 10th Annual Ordinary General Meeting of Shareholders and all interested readers of this report.

Most of all, I would like to express my enormous delight to be exceptionally fortunate enough to be able to report to you all, for the last 10 successive General Assemblies including this one, the uniquely successive shining performances of your Bank during all times of which we have managed to register only growths throughout all those reporting periods, in Deposit, Total Asset, Total Capital, Customers, branches and above all profit, against all odds in the market.

According to World Economic Outlook report (WEO July 2019), the global economic growth, which peaked up to 3.8 % in 2017, and softened to 3.6% in 2018 is estimated to further downcast to 3.2% mainly due to slowdown in global trade and escalation of US-China trade tensions. On the up side, Sub-Saharan Countries economic growth has been showing a marginal improvement as it grew from 2.9% to 3.1% growth in the year 2017 to 2018 while it is estimated to pick up to 3.4% in 2019. According to Sub-Saharan Africa Regional Economic Outlook; April 2019, Ethiopia became the region's third largest economy.

Despite the applauded significance of Ethiopia's aggregate economy in the region which is attained by successive average double digit growth for over a decade, the chronic shortage in foreign currency which is suffocating the economy, the still unsettled public unrest, the soaring inflation and unemployment were shadowing the huge efforts being made by the government under the new leadership. The export sector was also not in favor of our major agricultural products such as coffee due to instability or fall in the commodities prices in the global market worsening our foreign currency earnings. Almost all industries were significantly affected by shortage of raw materials due to lack of the foreign exchange. This challenge to our international trade (import/export) may cause significant credit default risk to the Banking Industry. Total merchandise export earning of Ethiopia declined for the continuous two years (2016/17-2018/19) which was 2.9 billion USD in 2016/17 had declined to 2.84 billion USD in 2017/18 and it further fall to 2.67 billion in 2018/19 according to Ministry of Trade and Industry. Inflation remained at double digit throughout the year striking 16.2%. As a result of all of the above and many other factors, the banking industry was also characterized by stiff competition for critical resources such as deposit, foreign currency, skilled human resources, convenient branch offices, and other office materials. Still, lack of basic infrastructures (such as power, telecom services and in some areas roads) as well as the unpredictable public unrest that continued to occur at most parts of the country were the major challenges the banking industry had faced.

Dear Shareholders and Stakeholders

In the year under review, we harnessed the enormous potential of our human capital, digital solutions, excellent customer service orientation, and cost control strategies to grow our business and enhance efficiency, which culminated in a glorious performance. The bank has created job opportunities for 5,212 with 577 new additions during the just ended fiscal year. Moreover, the Bank had given various local and overseas training to 6,317 employees in an intention to have skilled and well-disciplined human resource.

Since its establishment, OIB had been expressing its commitment to focus on innovation and endeavoring to deploy advanced technologies to meet expectations of our customers. Our array of products, services and alternative channels that ensure convenience, speed and security of transactions, and our commitment to deploy the state-of-the-art technology has assured that we maintain our leadership in the digital space through ensuring the growth in our service outlets thereby significantly raising our outreach. To mention a few efforts:

* Our new IT Systems Projects including complete CBS has gone live and is now enhancing the quality of our network system;
* We have significantly expanded our service outlets to get closer to our customers and seize new target markets—our branches reached 265 and we had recruited 227 Oro-agents for our agent banking service across the country while we have about 84,661 Oro cash (mobile banking) user customers.
* We had deployed 77 ATM machines that joined the nation's ATM networks that connected thousands of ATMs via national switch by Ethswitch S.C and our Oro-card users reached 121,831 as at June 30, 2019.

Respected Shareholders,

During the reporting year, OIB has yet again managed to register positive results withstanding the ever-growing industry competition and the difficult business environment. OIB's total asset significantly grew by 34% to Birr 31.8 billion as at June 30, 2019, compared to preceding year's position of Birr 23.8 billion. Deposit balance reached Birr 26.6 billion as at June 30, 2019, showing 33% growth with a net increment of Birr 6.7 billion. Loans plus IFB financing had climbed to Birr 17.4 billion as at June 30, 2019, exhibiting a 50% growth. The total foreign currency generated during the year was USD 342 million showing a modest growth of 9% compared to last year same period achievement against the decline in the national export earnings.

During the year, Our Bank registered a total income of Birr 3.2 billion growing at 31% compared to last year's same period. In the same period, the Bank has incurred a total expense of Birr 2.2 billion to generate that revenue, showing a growing rate of 46%. The jump in the expense growth rate was mainly due to significant growth in interest expense and General and Administrative expenses. OIB has, however, concluded the 2018/2019 fiscal year operation with a massive Profit before tax of Birr one billion, modestly higher than last year same period by 7% which once again substantiates the Bank's steadiness and strength of maintaining growth in profit even after extraordinary significant profit of base year.

I am very proud to be part of this history making moment for OIB. I am also humbled by the continuous support of our shareholders, without whom our successes would not have been possible. The strong support, trust and loyalty of our customers is also priceless for which we would always remain grateful. I would like to extend my heartfelt gratitude to our Board of Directors whose unflinching support and leadership is irreplaceable. Our on-going collective efforts to deliver exemplary value will be paramount in guaranteeing our profitability and the long-term sustainability of our business. My fellow management members and the entire staff deserve my appreciation for the commitment and dedication they displayed at all operational fronts.

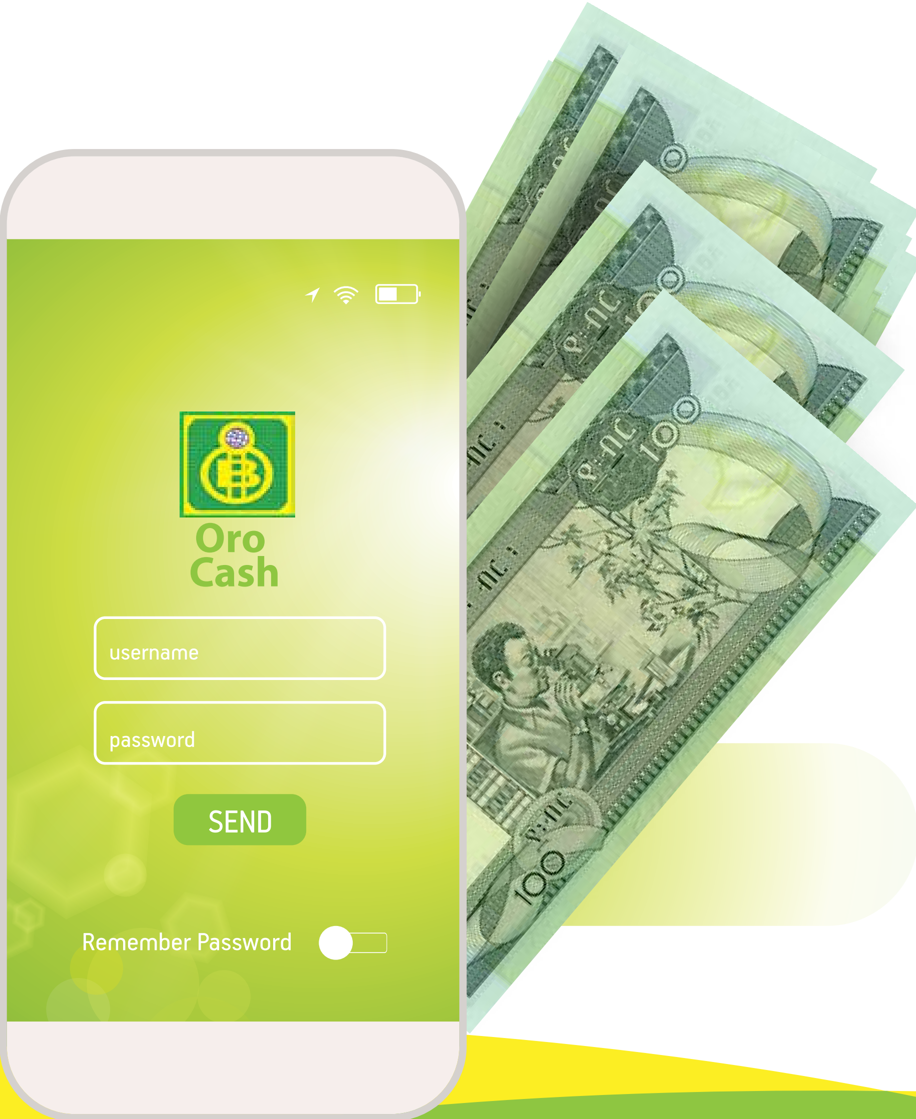
Last, but not least, my sincere appreciation goes to the National Bank of Ethiopia for their constructive supervisory supports which was complementary for our prudence. I am also grateful to our External Auditor (TAY Authorized Accountants and Auditors), KPMG East Africa, Oromia Regional State, Finfinne City Administration, Ethswitch, ECX, Ethio Telecom, Ethiopian Electric Power Corporation, Domestic Banks, Our Correspondent Banks, Remittance Agents, and all stakeholders for their trust in partnering with us and for their continued support and cooperation.

Finally, I would like to recommence our firm commitment that we, at OIB, will always endeavor diligently to ensure excellence in all our services with a bigger goal in our hearts to realizing our vision—**To Become the Bank of Your First Choice.**

I thank you all!

Abie Sano

President, OIB



Oro Cash

*840#

MULTIPLE CHOICE
FOR WORLD WIDE
MONEY TRANSFER

WESTERN UNION MONEY TRANSFER

XPRESS MONEY

MoneyGram. Money Transfer

Dahabshiil

TRANSFAST Worldwide Money Transfer

Ria MONEY TRANSFER

KAAH Leader in Modern Remittance

GOLDEN MONEY TRANSFER

UREMIT MONEY TRANSFER

MONEY EXCHANGE

worldremit

Shaka Express

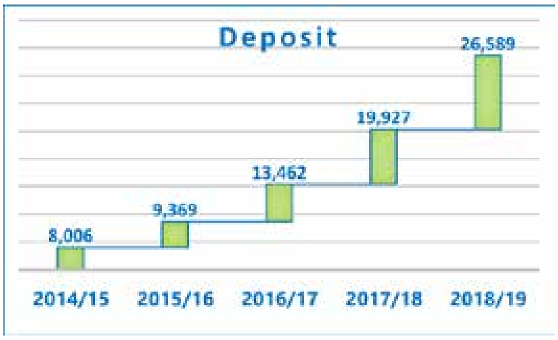
SHIFT Secure and Fast

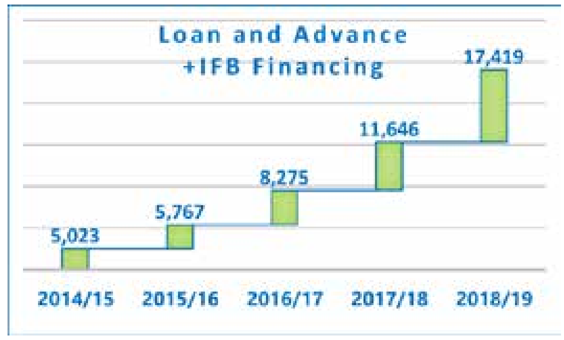
KEY PERFORMANCE INDICATORS of 2018/19

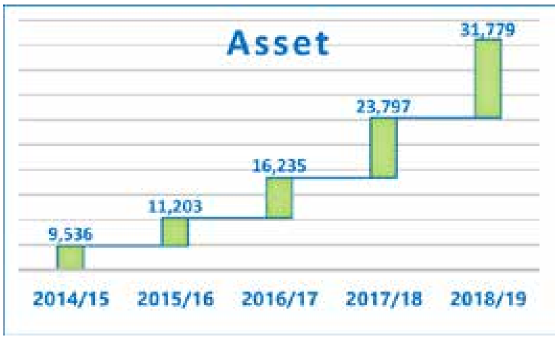
3,647 Permanent Staff	▲12%	31.8B Asset	▲34%	3.2B Revenue	▲31%
5,212 Total Employment	▲12%	26.6B Deposit	▲33%	2.2B Expense	▲46%
569 Service Outlet	▲14%	17.4B Loan and IFB Financing	▲50%	1.0B Profit before tax	▲7%
265 Branches	▲7%	7.1B NBE Bill	▲46%	261.3M Income Tax	▲24%
1.39M Regular Customers	▲25%	342M FCY	▲9%	740M Net Profit	▲2%
206,492 E-channel Customers	▲95%	3.7B Total Capital	▲43%	374 Average Earning Per share	▼29%
10,262 Borrowers	▲20%	2.4B Paid Up Capital	▲49%	307 Average dividend per share	▲11%

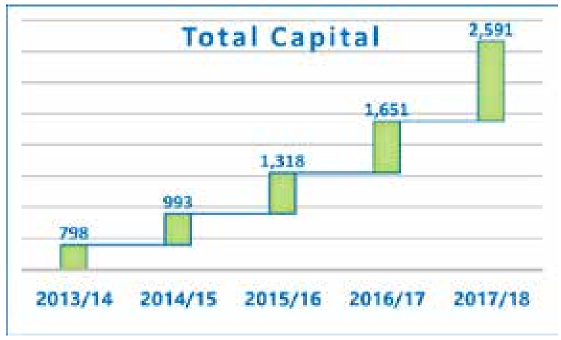
OIB'S Key Performance Trend as at June 30,2019

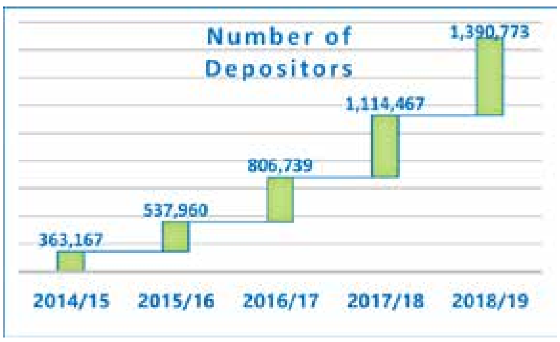
Amount in Million

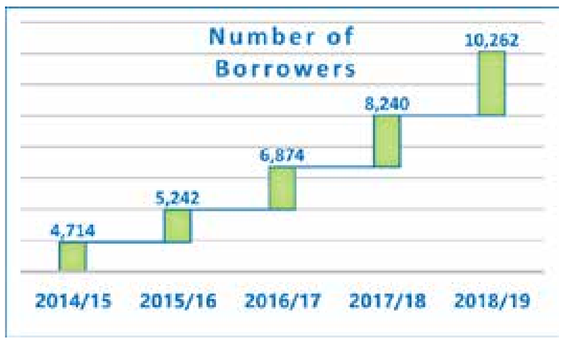


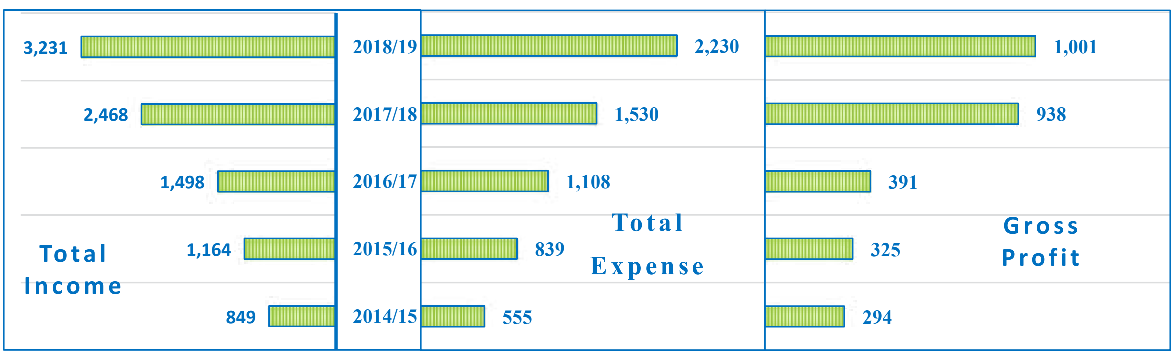













OIB

BOARD OF DIRECTORS' REPORT

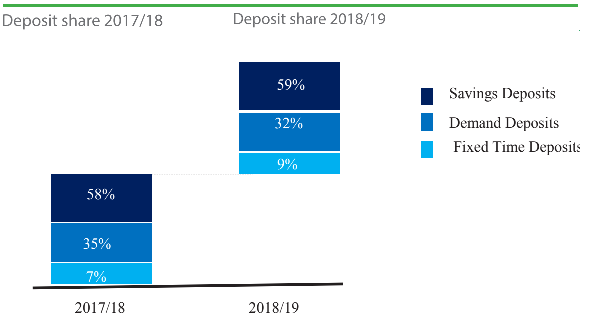
1.OVERVIEW OF OPERATIONAL PERFORMANCE

In the midst of teetering global and local economy and industry's stiffer competition, OIB continues registering laudable growth in almost all parameters. The pleasing result was due to unflinching efforts that had been exerted by the Board of Directors, Management and the entire staffs of the Bank. This part of the report hereby presents the high-level performance of the year with emphasis on achievements, challenges, and future overall directions of the business of the Bank.

1.1 Deposit Mobilization

Amid industry's stiff competition especially in deposit area, the Bank keeps showing laudable growth in deposit performance. In the fiscal year 2018/19, OIB's total deposit reached Birr 26.6 billion exceeding the preceding year's similar period achievement by 33 percent with a net increment of Birr 6.7 billion.

Chart 1: Deposit Composition by Type



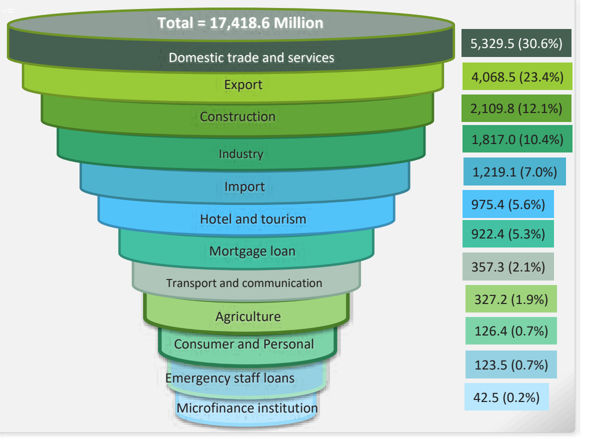
As the deposit structure of the Bank indicates, share of fixed deposit and saving deposits grew by 2 and 1 percentage point respectively during the year under review while that of demand deposit declined by 3 percentage points from the last year similar period.

Loans and Advances Including IFB Financing

The total outstanding loans and advances plus IFB financing of the Bank reached Birr 17.4 billion as at June 30, 2019, exhibiting a growth of 50% over the position attained at the end of the preceding year.

By its loans and advances plus IFB financing, OIB has reached all sectors of the economy despite difference on the share of the sectors. Regarding the composition of credit and financing, Domestic Trade and Services (DTS) is taking the highest share of 30.6% of the portfolio followed by Export 23.4% share, Construction 12.1%, Industry 10.4%, Import 7.0%, Hotel and Tourism 5.6% and mortgage also 5.3% share during the year.

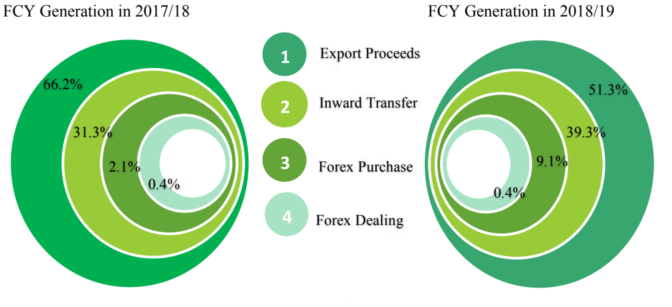
Chart-2: Loans and Advances plus IFB financing by Economic Sector during 2018/19



1.2 International Banking Services

Foreign currency mobilization is one of the crucial components of the overall resource mobilization strategy OIB has devised. Accordingly, the total foreign currency inflow including purchase and dealings during the year under review had reached USD 342 million. Earning from Export stood at USD 175 million while inward transfers were 134 million USD. And the forex purchase and forex dealing altogether generated USD 32 million.

Chart 3: Breakdown of Foreign currency generation in Million

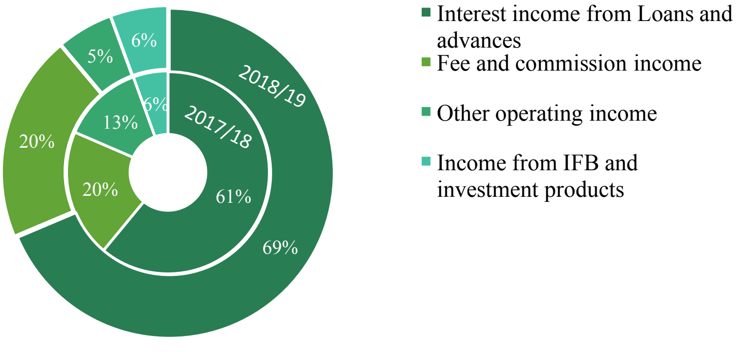


2. Financial Performance

2.1 Income

During the reporting year, OIB managed to generate total revenue of Birr 3.2 billion showing an increment of Birr 763 million or 31% relative to the balance achieved in 2017/18 fiscal year.

Chart 4: Income composition for the financial year ended June 30, 2019



2.2 Expense

In 2018/19 budget year, the total expense of OIB rose to Birr 2.2 billion, exhibiting 46% rise over the previous year's level of Birr 1.5 billion.

The jump in expense was mainly due to interest expense and general and administrative expenses.

Table 1: Composition of Expense by type as at June 2019

Expense by Type	Amount in Birr Million		Growth	Share	
	2018/19	2017/18		2018/19	2017/18
Interest expense	837	543	54	37.5	35.5
Personnel expenses	799	623	28	35.8	40.7
Other operating expenses	365	267	37	16.4	17.5
Depreciation and impairment of property, plant and equipment	69	54	28	3.1	3.5
Loan impairment charge	153	18	734	6.9	1.2
Impairment losses on other assets	3	11	(75)	0.1	0.7
Amortisation of intangible assets	4	13	(66)	0.2	0.9
Distribution to depositors- IFB Products	0	0.17	(92)	0.0	0.0
Total	**2,230**	**1,530**	**45.7**	**100.0**	**100.0**

2.3 Profit

Profit before tax hit yet another record high and exceeded Birr one billion, higher by 7% compared to last year the same period of Birr 938 million. OIB has managed to generate a net profit of Birr 740 million after holding provision of Birr 261.3 million for income tax of the fiscal year.

2.4 Return on Asset and Capital

Return on asset (ROA) expressed as the ratio of profit before tax to average assets of OIB is 3.6% for the financial year 2018/19, while return on Equity (ROE) expressed as the ratio of profit before tax to average capital is 31.8%. These ratios basically measure management efficiency in utilization of assets and capital in converting to profit and the higher ratio is better.

Moreover, the net profit margin of the Bank (net profit after tax divided by total income) is 23.1% for the year ended June 30, 2019. Likewise, earning per share of the Bank (net profit divided by average number of shares outstanding) is Birr 374 indicating a single share with par value of Birr one thousand earned a return of Birr 374 on average.

Table 2: Performance indicator for 2018/19

S/No	Particulars	2018/19	2017/18	Percentage point/ Absolute change	Growth
1	Return on Asset (ROA)	3.6%	4.7%	(1.1%)	(23.4)
2	Return on Capital (ROC)	31.8%	45.1%	(13.3%)	(29.5)
3	Net Profit Margin	23.1%	29.5%	(6.4%)	(21.7)
4	Average Earning Per Share	374	525	(151)	(28.8)
5	Average Dividend Per Share	307	277	30	10.8

2.5 Distribution of Net Profit

The Bank has secured net profit of Birr 740 million after income tax provision of Birr 261.3 million. In accordance with the Articles of Association of the Bank and Proclamation No 592/2008 article 19 of the Licensing and Supervision of Banking, 25% of the profit after tax (184.9 million) is transferred to legal reserve until the balance reaches 100% of the paid-up capital.

Provisions under prudential guidelines are determined using the time-based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the expected credit loss model required by IFRS under IFRS-9. When the difference occurs between the two approaches, the IFRS provision should be compared with provisions determined under the NBE Directives and the difference is treated as follow;

* If prudential provision is greater than IFRS provision; the excess provision resulting should be transferred from the retained earnings account to regulatory risk reserve.
* If prudential provision 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 the Retained Earning account.

Accordingly, Birr 121.5 million is transferred from regulatory risk reserve to retained earning account as the provision computed as per IFRS is greater than the prudential provision under NBE directives by the same amount.

Due to other IFRS-9 adjustments as indicated in the audited financial statement note 29, the overall net amount transferred to retained earnings is reduced to Birr 52 million from 121.5 million.

Thus, the Board of Directors requests the General Assembly to approve distribution of Birr 613 million to the shareholders.

3.RESOURCE BUILDING

3.1 Human Resources

Human capital remains the prime asset of the Bank who always orchestrates awe-inspiring success. The Bank is continuously working on improving the quality of its human resources, from the very top to the bottommost recruits. To further enrich their skills and strengthen their capacity through providing various trainings, the Bank invested 2% of its recurrent expenditure on staff training and development during the just ended financial year.

OIB created employment opportunity for 5,212 citizens as at June 30, 2019.

3.2 Information Technology

Today, when the world is increasingly turning digital, it is really unthinkable to run businesses like Banks without engaging state-of-the-art information technology. Technology is enabling businesses to automate numerous processes, which thereby increases productivity. To this end, OIB is hugely investing on IT infrastructures and systems.

The Bank adopted new core-banking system which is now fully operational. OIB is qualitatively and quantitatively improving its Electronic banking services. As at June 30, 2019, OIB has deployed 77 ATM machines and there are 121,831 Oro -card users while the number of Oro-cash (mobile banking) users reached 84,661. The Bank also recruited 227 Oro-Agents across the country.

3.3 Branch Expansion

The core focus of OIB is getting closer to its customers, accessing financial services to the society and reaching out new markets. For this, to be successful, therefore, further expanding branches is inevitable. Thus, OIB opened additional 17 new branches in the year under review and the Bank's branches grew to 265 as at June 30, 2019.

4.INTEREST FREE BANKING (IFB) PERFORMANCE

Oromia International Bank S.C. (OIB), a private financial institution, becomes the first to implement Interest Free Banking Services in Ethiopia. By using a separate window along with the other banking services, the Bank offers a wide range of deposit, financing and various banking products and/or services.

In this section, OIB's IFB financial and operational performance is separately presented even though it was already included and presented in the corporate figures.

4.1 IFB Fund Mobilization

During the year under review, OIB has intensified its deposit mobilization efforts by using different acquisition strategies and offering different kinds of IFB deposit products to its customers. As a result, the Bank mobilized Birr 4.16 billion through Interest Free Banking Services which shows an absolute growth of Birr 1.14 billion or 38%, as compared to the balance of Birr 3.01 billion of the previous year.

During the reporting period, IFB deposit by category revealed that, Wadiah deposit accounted for 68.6% and Amana deposit took 31.4%. On the other hand, the IFB deposit of the Bank constituted 15.6% of the consolidated corporate deposit portfolio compared with 15.12% share of last year performance showing incremental progression.

Table 3: IFB Deposit breakdown by type

IFB deposit By Type	Amount in Birr Million		Growth	Share	
	2018/19	2017/18		2018/19	2017/18
Wadi'ah deposits	2,848	2,102	35	68.6	69.8
Amana deposits	1,307	911	43	31.4	30.2
Mudharaba deposits	-	0.25	(100)	-	0.0
Total	**4,155**	**3,013**	**38**	**100.0**	**100.0**

4.2 IFB Financing

At the close of the reporting period, the total IFB Financing availed to different economic sectors reached over Birr 1.82 billion, up by Birr 237 million or 15% from the last year similar period. As a result, the financing to deposit ratio of the IFB of the Bank stood at 0.44:1; which happened to be less than the last year's 0.52:1 of the same period. In terms of sector wise distribution, IFB financing portfolio of the Bank covered a wide range of sectors of the economy. Among these, Export Facility Financing took the lion's share followed by Domestic Trade and Services.

The IFB financing outstanding balance has reached 10.46% of the total corporate consolidated loans and advances plus IFB financing from its 13.6% of last year.

Table 4: Composition of IFB financing by sector

IFB Financing By Economic Sector	Amount in Birr Million		Growth	Share	
	2018/19	2017/18		2018/19	2017/18
Interest Free Export Facility	208	482	(57)	11.4	30.4
Domestic Trade and Services	648	409	59	35.6	25.8
Industry	330	185	78	18.1	11.7
Import	159	169	(6)	8.7	10.7
Construction	251	123	105	13.8	7.7
Transport and Communication	107	118	(9)	5.9	7.5
Agriculture	101	87	15	5.5	5.5
Hotel and Tourism	18	12	54	1.0	0.7
Total	**1,822**	**1,586**	**15**	**100.0**	**100.0**

4.3 IFB Foreign Currency Generation

At the end of the financial year under review, the IFB window has generated a total foreign currency of USD 24.4 million demonstrating a decline of 50% from last year similar period USD 48.4 million. During 2018/19, IFB's window FCY generation has contributed 7.4% of aggregate corporate total FCY generation.

4.4 IFB Income

The IFB window has generated a total income of Birr 244 million during the financial year 2018/19 showing a growth of 9% from last year amount of Birr 223 million. Out of the total corporate consolidated income, IFB income constitutes 7.6%.

Table 5: IFB Income by type as at June 30, 2019

IFB Income	Amount in Birr Million		Growth	Share	
	2018/19	2017/18		2018/19	2017/18
Income from Muaraba Financing	181	137	33	74.3	61.3
Fee and commission income	63	84	(26)	25.6	37.7
Other operating income	0	2.2	(92)	0.1	1.0
Total	**244**	**223**	**9**	**100.0**	**100.0**

4.5 IFB Expense

During the period under review, the expense of IFB window reached Birr 27 million showing 4% decline from last year similar period. Personnel expenses and other operating expenses constitutes 64.1% of the total IFB expenses followed by loan impairment charge of 35.8%.

Table 6: IFB Expense by type as at June 30, 2019

IFB Expense	Amount in Birr Million		Growth	Share	
	2018/19	2017/18		2018/19	2017/18
Personnel expenses and other operating expense	18	15	15	64.1	53.5
Loan impairment charge	10	9	4	35.8	33.0
Impairment losses on other assets	-	4	(100)	-	12.9
Distribution to depositors- IFB Products	0.0	0	(92)	0.0	0.6
Total	**27**	**28**	**(4)**	**100.0**	**100.0**

4.6 IFB Profit

During the financial year 2018/19, IFB window has generated profit of Birr 217 million demonstrating a growth of 11% from last year level of Birr 195 million. It contributed 22% to the corporate profit of the Bank.

Table 7: IFB Profit as at June 30, 2019

IFB Profit	Amount in Birr Million		Growth	Share From Corporate	
	2018/19	2017/18		2018/19	2017/18
IFB Income	244	223	9.4	7.6%	9.0%
IFB Expense	27	28	(3.9)	1.2%	1.9%
Profit	**217**	**195**	**11**	**22%**	**21%**

4.7 Expansion of IFB Window & Customer Base

OIB is providing a full-fledged Sharia-compliant Interest Free Banking Service at almost all of its branches, 263 out of 265 branches. In view of customer base, the number of IFB customer is significantly increasing year-on-year in which it has reached 328,269 showing an incremental growth by 32.04% from its last year customer base of 248,614. This indicates that the customers have big trust on our services for which we are dedicated in offering the products and/or services that best fits our esteemed customers' banking needs. Besides, consistent growth in the customer base of the IFB services has significantly increased transactional accounts and volumes strongly. Thus, the Bank believes that establishing customer relationships alongside acquisition of new customers underpins the sustainable growth of its business.

5.CORPORATE GOVERNANCE

5.1. Appointment, Composition, Size and Qualifications of Board of Directors

OIB's members of the Board of Directors (BOD) were nominated and elected among the shareholders through well established and transparent process handled by an independently organized Nomination Committee.

The General Assembly of Shareholders voted as per their respective shareholdings for preferred candidates from the proposed nominees and aggregate high voted candidates in their sequence and in terms of earned votes had been submitted to the regulator for review and approval; and the regulator (NBE) gave final approval after checking the fulfillment of directors fit and proper requirement laid down in the relevant directive.

The BOD consists of 12 members fulfilling a mixture of gender and core competencies, representation of the interest of non- influential shareholders and educational qualification as per the corporate governance directives of NBE.

5.2. Structure of the Board

The BOD has a Chairperson, a Vice Chairperson, Secretary and three sub-committees namely Internal Audit, Risk and Compliance and Human Resources and Business Affairs.

5.3. The Functions of the Board

The BOD has ultimate responsibility for the Bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations.

5.4. Role of the Board of Directors-Committee

Internal Audit Sub- committee

The Audit sub-committee is established to provide independent oversight of the bank's financial reporting and internal control system and ensuring check and balance within the Bank.

Risk Management and Compliance Sub- Committee

The BOD Risk and Compliance Sub-Committee oversees senior management's activities in managing credit, market, liquidity, operational, legal and other risks to ensure that the competent risk management process is in place and functioning.

Human Resources and Business Affairs Sub- Committee

The primary objective of this committee is to provide formal and transparent proposal on the employment and removal of senior management members if he/she is ineffective, errant or negligent in discharging his/her responsibilities and on the overall compensation /benefits systems of the Bank. The Sub-committee also reviews annual plan and budget and the Bank's performances as well as other business affairs.

5.5. Directors' Allowance

The directors are entitled to monthly allowance of Birr 10,000.00 as well as a maximum annual remuneration of Birr 150,000.00 each, which are effected in accordance with the provisions of NBE directive SBB/63/2016.

5.6 Internal Audit, Risk Management and Compliance

OIB has well organized and properly resourced Internal Audit and Risk Management and Compliance units functionally reporting to the BOD and administratively to the President. The BOD deliberates and takes proper actions on reports of these functions at least on monthly basis.

5.7 The President and Senior Management Officers

OIB's day to day operations are run by the President and members of Senior Management Officers nominated by the BOD and approved by NBE after checking fulfillment of requirements established as per relevant directive. The President has established a number of committees which are assisting him to discharge his responsibilities in effective and efficient manner.

6. EXTERNAL AUDITORS

TAY Authorized Accountants and Auditors are OIB's auditors nominated by the General Assembly of Shareholders and Approved by NBE.

7. FUTURE PLANS

The Bank 10^{th} anniversary has been colorfully celebrated through series of events and activities until June 2019. Given the rapid growth it has achieved, OIB has indeed every reason to celebrate. The Bank will be believed that the next 10 years will be even more re-sounding than this.

OIB will further strengthen and continued to investing, implementing, enhancing and modernizing technology-based banking solution for the purposes of providing fast, efficient and modern banking services to its customers. Accordingly, the Bank has been undertaking ongoing projects on the core-banking upgrading. Most of the projects are finalized and very few are expected to be finalized during the upcoming financial year. Thus, the upgrading of its technology will enhance customer service; improve management information system, and the overall synchronization of operational activities of the Bank.

In the coming financial year, the Bank will open new branches at different outlets and introduce new products in order to improve the financial accessibility. Among these, we shall introduce some saving deposit and credit products, expanding new card banking products, mobile banking and agent banking which are operational. On the other hand, the internet banking and POS terminal are on pilot test and will be implemented in this fiscal year. Thus, OIB is focusing largely on creating convenience for the Bank's customers.

In OIB, human resource development is one of the primary concerns. Accordingly, the Bank will continue to focus on staff development and capacity building at all echelons by providing up-to-date trainings (both locally and internationally). In effect, their capability on providing efficient and effective services to our esteemed customers using new technologies and systems shall be boosted.

The Bank has recently added certain position to its existing organizational structure which will play a prominent role in the fulfillment of OIB's strategy. The newly added organizational structure has taken the financial and non-financial future growth of the Bank into consideration. As a result, it is expected to alleviate the constraints in the existing structure and accommodate the huge expansion strategy of the Bank.

During the fiscal year under review, OIB has been in the forefront in discharging its corporate social responsibilities. The Bank seeks to promote sustainable business, to increase transparency, and to avoid negative environmental and social impacts from its core businesses. In addition, the Bank strives to manage its business operations sustainably and embraces its responsibilities as a corporate citizen. Thus, OIB will continue its exemplary duties in carrying out Corporate Social Responsibilities for the coming fiscal year.

The Bank is also working to build its future headquarters at future financial hub of the city, Senga Tera. Accordingly, we are very near and committed to commence the construction during succeeding fiscal year. Moreover, the Bank secured land and finalized a precondition to construct a training center and conventional center at Oromia Special Zone, Gelan Town. Also, certain preconditions are being fulfilled to get a plot of land from Finfinne City Administration.

8. INTRODUCTION OF IFRS -9 AND 15 WITH ITS IMPACTS

IFRS 9: Financial Instruments

OIB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 July 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

OIB has not restated comparative information for 2018 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2018 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 July 2018 as indicated in the audited financial statement.

IFRS 15: Revenue from Contracts with Customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 July 2018. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The adoption of IFRS 15 and other amendments to IFRSs which are effective for annual accounting period starting from 1 July 2018 did not have any material impact on the accounting policies, financial position or performance of OIB.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 July 2018 did not have any material impact on the accounting policies, financial position or performance of OIB.

Projects Financed

Alpha Food complex

Dinsa Regasssa Coffee Farm

Corporate Social Responsibility

2.8 mln worth exercise book donation to AA City Administration

Tree Planting event by OIB Staff

Blood donation event by OIB Staff

Events of the Bank held During the year

9th General Meeting of Shareholders

OIB's Staff Day

Symposium organized by OIB

10th Anniversary Closing Dinner

10th Anniversary Road Show

OROMIA INTERNATIONAL BANK S.C

SHARIAH ADVISORY COMMITTEE (SAC) STATEMENT FOR FISCAL YEAR ENDED JUNE 30, 2019

Dear Shareholders of Oromia International Bank S.C;

Pursuant to the Oromia International Bank S.C corporate governance framework and its provisions associated to Interest Free Banking Window, and in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions Shariah Standard and the Bank's Shariah Advisory Committee Charter, the SAC presents the following report.

Interest Free Banking Window offers a wide range of deposits, financing and various banking products and services irrespective of race, religion or company.

We are honoured to announce that Oromia International Bank S.C through its IFBW has mobilized deposit of Birr 4.16 billion, generated FCY of USD 24.4 million, and earned profit before tax of Birr 217 million from Interest Free Banking business during the budget year ended June 30, 2019.

It is our responsibility to form an independent opinion, based on our review of the Bank's operation, and report to you. Our monitoring comprised of reviewing several questions and inquiries forwarded by the Bank on issues related to sharia compliance on which we delivered our opinion. We have also undertaken several consultation meetings and exchanged views, with OIB's board members and management, on overall sharia compliance assurance mechanism.

Based on review of various Interest Free Banking reports and to the best of our knowledge, we are of the opinion that:

a) The mechanisms in place to ensure Shari'a compliance of the overall operations and transaction of IFBW is workable and up to the general standard of Interest Free Banking operational modalities;

b) The contracts, transactions and dealings entered into by the Bank during the year ended June 30, 2019 are generally in compliance with the Shari'a standards;

c) All amounts realized from sources like penalties were not incorporated to the bank's revenue. It is placed and reported separately in the charity account;

d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;

e) The responsibility of paying Zakat falls on the shareholders. The Bank's management is not authorized to pay Zakat directly, as there is no law to that effect, and the Bank's Articles of Association do not stipulate such an action nor do the decisions of the General Assembly or the shareholders' authorization.

f) The Sharia Board has been provided adequate resources enabling it to discharge its duties and responsibilities effectively.

We hope and anticipate that IFBW will continue to contribute more by upholding similar Sharia compliance dedication, implementations and applications without undermining the never-ending quest of customers and by addressing banking needs of the unbanked, serving the missing middle and accommodating all those who are far from banks due to their value system.

Finally, the Sharia Advisory Committee takes this opportunity to express its gratitude to the Board of Directors, the Bank's management and staffs for their co-operation and their keenness in understanding and adherence to the rules of the noble Sharia Principles.

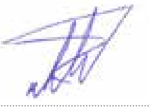
Thank you!

Sheik Hajji Ebrahim Tufa
SAC Chairperson

Dr JeilanGeleta Mami
SAC Vice Chairperson

Dr Mohammad Kamal Tilmo
SAC Member

Sheik Nuradin Abda Alo
SAC Member



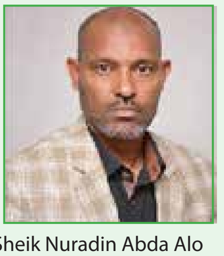
Sheik Abdulaziz Mohammad Said
SAC Member

SHARIAH ADVISORY COMMITTEE (SAC) MEMBERS

Sheik Hajji Ebrahim Tufa
SAC Chairperson

Dr JeilanGeleta Mami
SAC Vice chairperson

Dr Mohammad Kamal Tilmo
SAC Member



Sheik Nuradin Abda Alo
SAC Member

Sheik Abdulaziz Mohammad Said
SAC Member

Oromia International Bank S.C.

Audited Financial statements

For the year ended ‘30 June 2019

Oromia International Bank S.C.

Directors, professional advisers and registered office

For the year ended 30 June 2019

Company registration number

KK/AA/3/0007345/2007

Directors (As of 30 June 2019)

Obbo Gadissa Bultosa	Chairman	Appointed April 05, 2018
Dr. Aynalem Megersa	Vice-Chairperson	Appointed April 05, 2018
Dr. Firdissa Jebessa	Member	Appointed April 05, 2018
Ambassador Aman Hassen	Member	Appointed April 05, 2018
Obbo Asegid Regassa	Member	Appointed April 05, 2018
Obbo Damenu Tulu	Member	Appointed April 05, 2018
Obbo Berhanu Debella	Member	Appointed April 05, 2018
Obbo Didha Dirriba	Member	Appointed April 05, 2018
Dr. Assefa Seme	Member	Appointed April 05, 2018
Obbo Ajema Gondel	Member	Appointed April 05, 2018
Obbo Mulugeta Tujuba	Member	Appointed April 05, 2018
Obbo Feyera Abdissa	Member	Appointed April 05, 2018

Executive management (As of 30 June 2019)

Obbo Abie Sano	President	Appointed 01 Feburary 2009
Obbo Teferi Mekonnen	V/P Corporate Support	Appointed 21 June 2013
Obbo Geleta Bekuma	V/P Information Technology	Appointed 01 June 2018
Obbo Wolde Bulto	V/P Credit & International Banking	Appointed 23 April 2016
Obbo Alemayehu Demise	V/P Branch Banking	Appointed 24 March 2016
Obbo Berhanu Edea	Chief Internal audit	Appointed 21 April 2016
Obbo Ketema Mengesha	Chief Risk Management and Compliance	Appointed 20 February 2017

Independent auditor

TAY & Accountants & Authorised Auditors
Addis Ababa
Ethiopia

Corporate office

P.O.Box 27530/1000
Bole Road
Oromia International Bank Building
Addis Ababa
Ethiopia

Company secretary

Solomon Geda
P.O.Box 27530/1000
Bole Road
Oromia International Bank Building
Bole Road, Kirkos
Addis Ababa, Ethiopia

Oromia International Bank S.C.
Report of the directors
For the year ended 30 June 2019

The directors submit their report together with the financial statements for the year ended 30 June 2019, to the members of Oromia International Bank S.C. ("OIB or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation

Oromia International Bank share company has been established in Addis Ababa as per the Commercial Code of Ethiopia 1960, and it was licensed by the National Bank of Ethiopia in September 2008 with the objective to engage in banking service in accordance with the Banking Business Proclamation number 592/2008 . The Bank started operation in October 2008.

Principal activities

Oromia International Bank S.C (OIB) engages in full-fledged banking business as per Banking Business Proclamation of Ethiopia number 592/2008. Accordingly, it accepts deposits in the form of current (demand) deposits, saving deposits and fixed time deposits. To address the need of certain types of its customers some features are added on those deposit types such as diaspora deposit accounts. It also extends different types of credit products based on the need of its customers. Some of its credit products have terms ranging from short term to long term while others have revolving nature such as over draft and pre-shipment facilities. International trade facilitation through letter of credit and other means of payment is the other major business of the Bank. The Bank also undertakes both local and international money remittance services. Moreover, it has specialized services such as interest free banking services, card banking services, mobile banking and agent banking services.

Results and dividends

The Bank's results for the year ended 30 June 2019 are set out below. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income	2,218,072	1,505,568
Profit / (loss) before tax	1,001,346	938,042
Tax (charge) / credit	255,493	210,337
Profit / (loss) for the year	745,853	727,705
Other comprehensive income / (loss) net of taxes	6,549	(2,779)
Total comprehensive income / (loss) for the year	6,549	(2,779)

Directors

The directors who held office during the year and to the date of this report are set out on page 1.

Solomon Geda
Company Secretary
Addis Ababa, Ethiopia

Oromia International Bank S.C.
Statement of directors' responsibilities
For the year ended 30 June 2019

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

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

a) exhibit clearly and correctly the state of its affairs;

b) explain its transactions and financial position; and

c) enable the National Bank to determine whether the Bank had complied with the provisions of the Banking Business Proclamation and regulations and directives issued for the implementation of the aforementioned Proclamation.

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

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

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

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

Signed on behalf of the Directors by:

Obbo Gadissa Bultosa	**Obbo Abie Sano**
Chairman of Board of Directors	**President**

Independent auditor's report
To the shareholders of Oromia International Bank S.C

Opinion

We have audited the financial statements of Oromia International Bank S.C, which comprise the statement of financial position as at 30 June 2019, and the related statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, the financial position of the Oromia International Bank S.C as at 30 June 2019 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Basis for Opinion

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

Key Audit Matters

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

During the financial year the bank has adopted several newly issued IFRS standards including IFRS 9 which had impact on comparative figures as well as opening balances of the previous year. Proper assessment and recognition of the impacts have been considered as key audit

Ethio-China Friendship Street, Wengelawit Tadesse Building, 1st Floor
Tel. (011) 442 1336, 442 0062, (011) 470 7092, (011) 470 7094 - Mob. (093) 001 4106, (091) 151 5038/39
Fax (011) 442 1338 - e-mail: info@tayauditing.com - www.tayauditing.com - P.O. Box 1335 - Addis Ababa, Ethiopia

matters for our audit during the year. We obtained management's working for the assessment of the impact and evaluated the reasonableness of key assumptions and accuracy of the workings.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr Tesfa Tadesse, MSc, FCCA.

TAY Authorized
Accountants & Auditors

Addis Ababa
12 November 2019

Oromia International Bank S.C.
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income from Loans and advances	6	2,218,072	1,505,568
Income from Interest free financing and investment products	7	181,386	136,825
Less:Interest expense	8	836,803	543,432
Less:Distribution to depositors- Interest Free Banking Products	9	13	166
Net interest income and income from Interest Free Banking products net of distribution to depositors		**1,562,642**	**1,098,795**
Fee and commission income	9	654,204	505,551
Less:Fee and commission expense	9	-	-
Net fees and commission income		654,204	505,551
Other operating income	10	177,641	320,463
Total operating income		**2,394,487**	**1,924,809**
Loan impairment charge	11	152,921	18,345
Impairment losses on other assets	12	2,881	11,378
Net operating income		**2,238,685**	**1,895,086**
Less:			
Personnel expenses	13	798,704	622,671
Amortisation of intangible assets	20	4,409	13,132
Depreciation and impairment of property, plant and equipment	21	68,802	53,866
Other operating expenses	14	365,424	267,375
Profit before tax		**1,001,346**	**938,042**
Less: Income tax expense	15	255,493	210,337
Profit after tax		745,853	727,705
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations	26	(6,951)	(2,779)
Net change in equity investment at FVOCI	19	13,500	-
Deferred tax (liability)/asset on remeasurement gain or loss	15		-
Total other comprehensive income for the period		**6,549**	**(2,779)**
Earnings per share of Ethiopian Birr 1000	28	374	525

The notes on pages 42 to 135 are an integral part of these financial statements.

Oromia International Bank S.C.
Statement of financial position
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
ASSETS			
Cash and cash equivalents	16	5,120,927	5,809,127
Loans and advances to customers	17	15,323,833	9,968,573
Interest Free Financing	18	1,890,738	1,621,293
Investment securities:			
- Financial assets at fair value through OCI (2018-AFS)	19	95,478	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	19	7,073,001	4,855,817
Other assets	20	1,466,746	791,474
Intangible assets	20	3,556	6,964
Property, plant and equipment	21	774,084	642,591
Deferred tax assets	15	-	-
		31,748,364	23,764,544
Non-current assets held for sale	22	30,942	32,185
Total assets		**31,779,308**	**23,796,732**
LIABILITIES			
Deposits from customers	23	22,434,183	16,913,738
Interest Free customers' deposits	24	4,154,943	3,013,277
Current tax liabilities	15	261,305	210,658
Deferred tax liabilities	13	7,840	13,902
Other liabilities	25	1,167,522	1,026,786
Retirement benefit obligations	26	40,934	26,925
Total liabilities		**28,066,727**	**21,205,286**
EQUITY			
Share capital	27	2,385,981	1,606,949
Share premium		7,694	7,694
Retained earnings	29	613,086	383,710
Legal reserve	30	642,233	457,285
Regulatory risk reserve	31	66,838	145,605
Other Reserve	24	(3,248)	(9,797)
Total equity		**3,712,583**	**2,591,446**
Total equity and liabilities		**31,779,308**	**23,796,732**

The notes on pages 42 to 135 are an integral part of these financial statements.

The financial statements on pages 42 to 135 were approved and authorised for issue by the board of directors on 05 November 2019 and were signed on its behalf by:

Obbo Gadissa Bultosa
Chairman of Board of Directors

Obbo Abie Sano
President

Oromia International Bank S.C.
Statement of changes in equity
For the year ended 30 June 2019

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Legal reserve Birr'000	Other reserve Birr'000	Regulatory risk reserve Birr'000	Total Birr'000
As at 1 July 2018		1,606,949	7,694	383,710	457,285	(9,797)	145,605	2,591,446
Profit for the year	29	-	-	745,853	-	-	-	745,853
Reversal of loans and IFB financing loss allowance recognized as per IAS 39	29	-	-	133,426	-	-	-	133,426
Day one IFRS 9 transition adjustment for loans and IFB financing	29	-	-	(172,762)	-	-	-	(172,762)
Reversal of other assets loss allowance recognized as per IAS 39	29	-	-	18,017	-	-	-	18,017
Day one IFRS 9 transition adjustment for other assets	29	-	-	(3,756)	-	-	-	(3,756)
Other comprehensive income:		-	-		-	-	-	-
Net change in equity investment at FVOCI	19	-	-	-	-	13,500	-	13,500
Re-measurement gains on defined benefit plans (net of tax)	26	-	-	-	-	(6,951)	-	(6,951)
Prior year (over)/ under provision	29	-	-	-	-	-	-	-
Directors' Share on Profit		-	-	(1,511)	-	-	-	(1,511)
Proceeds from issue of shares	29	468,334	-	-	-	-	-	468,334
Dividend capitalised	**29**	310,698	-	**(310,698)**	-	-	**-**	**-**
Transfer to legal reserve	**29**	-	-	**(184,948)**	184,948	-	**-**	**-**
Dividends paid	**29**	-	-	**(54,276)**	-	-	**-**	**(54,276)**
Dividend held in payable account	**29**		-	**(18,737)**	-	-	**-**	**(18,737)**
Transfer to regulatory risk reserve	**31**	-	-	**-**	-	-	**-**	**-**
Suspended Interest transferred to regulatory risk reserve account	**31**	-	-	**(41,351)**	-	-	**41,351**	**-**
Suspended Interest transferred to Retained earnings being collected in cash	**31**	-	-	**14,586**	-	-	**(14,586)**	**-**
Transfer to regulatory risk reserve for excess NBE Provision for other Assets				**(16,008)**			**16,008**	**-**
Transfer to retained earnings for excess NBE provisions for Loans and Advances no longer required on application of IFRS 9	**31**	-	-	**121,540**	-	-	**(121,540)**	**-**
Total Change in equity for the year		**779,032**	**-**	**229,376**	**184,948**	**6,549**	**(78,767)**	**1,121,137**
As at 30 June 2019		**2,385,981**	**7,694**	**613,086**	**642,233**	**(3,248)**	**66,838**	**3,712,583**

The notes on pages 42 to 135 are an integral part of these financial statements.

Oromia International Bank S.C.
Statement of cash flow
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash flows from operating activities			
Cash generated from operations	32	1,184,620	3,522,268
Interest received		-	-
Defined benefits paid		(581)	(354)
Income tax paid		(210,658)	(90,139)
Net cash (outflow)/inflow from operating activities		**973,382**	**3,431,775**
Cash flows from investing activities			
Purchase of investment securities	19	(2,243,957)	(1,399,070)
Purchase of intangible assets	20	(1,002)	(8,467)
Purchase of property, plant and equipment	21	(199,166)	(105,246)
Proceeds from sale of property, plant and equipment	32		-
Proceed on disposal of Asset held for sale	22		
Net cash (outflow)/inflow from investing activities		**(2,444,124)**	**(1,512,783)**
Cash flows from financing activities			
Proceeds from issues of shares	27	468,334	291,157
Dividend paid		(54,276)	(39,443)
Directors' Share on Profit		(1,511)	(894)
Net cash (outflow)/inflow from financing activities		**412,548**	**250,820**
Net increase/(decrease) in cash and cash equivalents		**(1,058,195)**	**2,169,812**
Cash and cash equivalents at the beginning of the year	16	4,809,127	2,639,314
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	**16**	**3,750,927**	**4,809,127**

The notes on pages 42 to 135 are an integral part of these financial statements.

1 General information

Oromia International Bank S.C. (" the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established on September 18,2008 in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank registered office is at:

P.O.Box 27530/1000
Bole Road
Oromia International Bank Building
Addis Ababa
Ethiopia

The Bank is principally engaged in the provision of diverse range of financial products and services to a wholesale, retail and small and medium 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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

- Assets held for sale – measured at fair value less cost of disposal, and
- The present value of the defined benefit obligation less the net total plan assets, plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.
- Financial assets at FVTOCI are measured at fair value

c) Functional and Presentation of Currency

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

d) Use of estimates and judgements

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

2.2.1 Going concern

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

2.2.2 Changes in accounting policies and disclosures

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the bank

(a) New standards, amendments and interpretations

(i) New standards, amendments and interpretations and effective adopted during the year

A number of new standards are also effective from 1 July 2018 but they do not have a material effect on the Bank's financial statements. Due to the transition method chosen by the bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

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 recognized by the bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in impairment losses recognized on financial assets;
- Additional disclosures related to IFRS 9; and
- Additional disclosures related to IFRS 15

Except for changes noted below, the bank has consistently applied the accounting policies to all periods presented in these financial statements

- IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

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

The Bank applied IFRS 15 on 1 July 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 July 2018 without restating comparative periods.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in note 2.5.

2.2.3 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 July 2018.

Financial assets	IAS 39 carrying amount 30 June 2018	Reclassification	Remeasurement	IFRS 9 carrying amount 1 July 2018
Cash and balances with central Banks	5,809,127	-	(196)	5,808,931
Loans and advances to banks	9,968,572	-	(37,194)	9,931,378
Interest Free Financing	1,621,293	-	2,142	1,623,435
Investment Securities: Availabel for sale	68,705	-	21,147	89,852
Investment Securities: Loans and receivables	4,855,817	-	243	4,856,060
Other financial assets at amortized cost	218,291	-	(14,658)	203,633
Total financial assets	22,541,805		(28,516)	22,513,289
Financial Liabilities				
Deposits from customers	16,913,738	-	-	16,913,738
Interest free customer deposit	3,013,277	-	-	3,013,277
Other financial liabilities (including ECL on loan commitments and gurantees)	867,612	-	42	867,654
Total financial liabilities	**20,794,627**	-	**42**	**20,794,669**

Financial assets and financial liablities

2.2.3 Classification of financial assets and financial liablities on the date of initial application of IFRS 9 (continued)

The following table shows the original measurement catagories in accordance with IAS 39 and the new measurement catagories under IFRS 9 for the bank financial assets and financial liabilites as at 1 July 2018.

FINANCIAL ASSETS	Classification Under IAS 39	Classification Under IFRS 9	Original carrying Amount	New Carrying Amount
Cash and balances with central Banks	Loans & Receivables	Amortised Cost	5,809,127	5,808,931
Loans and advances to banks	Loans & Receivables	Amortised Cost	9,968,572	9,929,045
Interest Free Financing	Loans & Receivables	Amortised Cost	1,621,293	1,621,436
Investment Securities: Availabel for sale	Availabel for sale	FVOCI	68,705	89,852
Investment Securities: Loans and receivables	Loans & Receivables	Amortised Cost	4,855,817	4,855,574
Other financial assets at amortized cost	Loans & Receivables	Amortised Cost	218,291	233,261
Total financial assets			22,541,805	22,538,099
Liabilities				
Deposits from customers	Amortised Cost	Amortised Cost	16,913,738	16,913,738
Interest free customer deposit	Amortised Cost	Amortised Cost	3,013,277	303,277
Other financial liabilities (including ECL on loan commitments and gurantees)	Amortised Cost	Amortised Cost	867,612	881,125
Total financial liabilities			20,794,627	18,098,140

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2.5(ii). The application of these policies resulted in the reclassifications set out in the table above and explained below.

• On the adoption of IFRS 9, certain financial assets such as cash and cash equivalents, loans and advances to customers – both interest bearing and interest free and treasury bills and bonds (NBE bills and government bonds) were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

•Further equity investment securities were reclassified out available-for-sale categories to FVOCI at their then fair values. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

• On the adoption of IFRS 9, other financial assets such accounts receivables, uncleared effects – both local and foreign and guarantee for overseas employment agencies were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

a. New standards, amendements and interpretations

i) New standards, amendments and interpretations effective and adopted during the year

IFRS 9: Financial Instruments (2014)

2.2.4 Classification of financial assets and financial liabilites on the date of initial application of IFRS 9

The following table summarizes the impact of transition to IFRS 9 on the opening balance of the provission and retained earnings . There is no impact on other components of equity.

Fair Value Reserve	Impact of adopting IFRS 9 at 1 July 2018
Closing balance under IAS 39 (30 June 2018)	-
Reclassification of investment securities (equity) measured at cost from available-for-sale to FVOCI	21,147
Related tax	-
Adjusted opening balance under IFRS 9(1 July 2018)	21,147
Regulatory risk reserve (difference between IFRS and NBE provissions)	
Closing balance under IAS 39 (30 June 2018)	145,605
Transfer to retained earnings for excess NBE Provissions no longer required on initial application of IFRS 9	(39,336)
Related tax	-
Adjusted opening balance under IFRS 9 (1 July 2018)	106,269
Retained Earnings	
Closing balance under IAS 39 (30 June 2018)	383,710
Adjustment on initial application of IFRS 9	(25,075)
Transfer from regulatory risk reserve on application of IFRS 9	39,336
Related tax	-
Adjusted opening balance under IFRS 9(1 July 2018)	**397,971**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations issued but not adopted

The Bank does not plan to adopt these standards early. These are summarised below;

New Standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Prepayment Features with Negative Compensation	01-July-2019
IFRS 16 Leases	01-July-2019
IFRIC 23 Uncertainty over income tax treatments	01-July-2019
Annual improvements cycle (2015-2017)	01-July-2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	01-July-2019
Amendments to references to the Conceptual Framework in IFRS Standards	01-July-2020
Amendments to IAS 1 and IAS 8 Definition of Material	01-July-2020

When All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the bank). Of those standards that are not yet effective, IFRS 16, IAS 19, amendmentss to IAS 1 and IAS 8 and IFRIC 23 are expected to have a significant effect on the Bank'sfinancial statements in the period of initial application.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations."

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required 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 Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (rightof- use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments."

(a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows"

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations issued but not adopted

The Bank is still assessing the potential impact on the amounts and disclosures of the Bank's financial statements

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 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 periods beginning on or after 1 July 2019.

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

— 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; and

• 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.

• The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 July 2019, or the date on which the amendments are first applied. Earlier application is permitted.

• The Bank is assessing the impact on the financial statements

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 July 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

Other Standards

The following amended standards are not expected to have a significant impact on the financial statements of the Bank.

• Annual improvement cycle (2015 – 2017) – various standards

• Amendments to References to the Conceptual Framework in IFRS Standard

2.3 Functional and presentation Currency

(a) Transactions and balances

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The functional currency and presentation currency of the Bank is the Ethiopian Birr (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 within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

Recognition of income and expense

(i) Interest income and expenses

Policy applicable after 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 Bank estimates future cash flows considering all contractual terms of the financial instrument, but not 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 impairment allowance before 1 July 2018).

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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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 creditimpaired, 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.
For information on when financial assets are credit-impaired, see Note 2.5
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;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases
- Interest expense presented in the statement of profit or loss and OCI includes:
- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

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

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

Recognition of income and expenses (continued)

(ii) interest income and expense

Policy applicable before 1 July 2018

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

The Bank, earns income from interest on loans given for domestic trade and services, building and construction, manufacturing, agriculture and personal loans. Other incomes includes margins on letter of credits and performance guarantees.

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 contractual rates.

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 contractual rate 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 Bank 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."

The Bank's policy for recognition of income from Interest Free financing and investments products is described in Note 2.7 (iii).

2.4.1 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 (for example commission on drafts, cash payment order (CPO),letter of credit (LC), guarantee etc) are recognised on an accrual basis 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 relates mainly to transaction and service fees are expensed as the services are received.

2.4.2 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.

2.4.3 Foreign Exchange revaluation gains and losses

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

The monetary assets and liabilities include financial assets within the foreign currencies deposits received and held on behalf of third parties etc.

2.5 Financial assets and liabilities

(i) Recognition and initial measurement

Policy applicable from 1 July 2018

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.The requirements of IFRS 9 represent a significant change from IAS 39. The newstandard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has 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 Bank disclosed this amount in the notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.
The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 2.2.4

Financial assets and financial liabilities are recognised in the Bank's statement of financial position sheet when the Bank becomes a party to the contractual provisions of the instrument.
Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

  After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(ii) Classification and measurement of financial instruments Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.
- However, the Bank may make the following irrevocable election /designation at initial recognition of a financial asset on an asset- byasset basis:

(i) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

(ii) the Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

• the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

• how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)."

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative

gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 4.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (nonrecourse loans). The Bank applies judgment in assessing whether the nonrecourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

• whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;

• the fair value of the collateral relative to the amount of the secured financial asset;

• the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;

• whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;

• the Bank's risk of loss on the asset relative to a full-recourse loan;

• the extent to which the collateral represents all or a substantial portion of the borrower's assets; and

• whether the Bank will benefit from any upside from the underlying assets.

Financial assets at FVTPL

Financial assets at FVTPL are:

• assets with contractual cash flows that are not SPPI; or/and

• assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

• assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 6- Fair value of financial instruments.

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets

In line with IFRS 9, the Bank assesses the under listed financial instruments for impairment using Expected Credit Loss (ECL) approach:

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments and financial assets measured at FVTPL are not subjected to impairment under the standard.

Expected Credit Loss Impairment Model

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Bank adopts a three-stage approach for impairment assesment based on changes in credit quality since initial recognition.

- **Stage 1** – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- **Stage 2** – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- **Stage 3** – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life timeexpected credit loss), unless there has been no significant increase in credit risk since origination.

Measurement of Expected Credit Losses

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- **12-month PDs** – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. The Bank obtains the constant and relevant coefficients for the various independent variables and computes the outcome by incorporating forward looking macroeconomic variables and computing the forward probability of default.

- **Lifetime PDs** – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9. The Bank obtains 3 years forecast for the relevant macroeconomic variables and adopts exponentiation method to compute cumulative PD for future time periods for each obligor.

- **EAD** – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

To estimate expected credit loss for off balance sheet exposures, credit conversion factor (CCF) is usually computed. CCF is a modelled assumption which represents the proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

It is a factor that converts an off balance sheet exposure to its credit exposure equivalent. In modelling CCF, the Bank considers its account monitoring and payment processing policies including its ability to prevent further drawings during periods of increased credit risk. CCF is applied on the off balance sheet exposures to determine the EAD and the ECL impairment model for financial assets is applied on the EAD to determine the ECL on the off balance sheet exposures.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires that:

The Bank uses internal subject matter consultant to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments in order to support the calculation of ECLs.

Macro-economic variables taken into consideration include, but are not limited to, inflation,Exchange rate, Gross Domestic Product,debt, stratification and requires an evaluation of both the current and forecast direction of the macroeconomic

cycle.

Macro-economic variables considered have strong statistical relationships with the risk parameters (LGD, EAD, CCF and PD) used in the estimation of the ECLs, and are capable of predicting future conditions that are not captured within the base ECL calculations.

Forward looking adjustments for both general macro-economic adjustments and more targeted at portfolio / industry levels. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Macroeconomic factors

The Bank relies on a broad range of forward looking information as economic inputs, such as: GDP growth, debt, household spending , consumer price index, inflation rates and foreign exchange rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

The macroeconomic variables and economic forecasts as well as other key inputs are reviewed and approved by management before incorporated in the ECL model. Any subsequent changes to the forward looking information are also approved before such are inputted in the ECL model.
The macro economic variables are obtained for 5 years in the future and are reassessed every 6 months to ensure that they reflect prevalent circumstances and are up to date.

Where there is a non-linear relationships, one forwardlooking scenario is never sufficient as it may result in the estimation of a worst-case scenario or a bestcase scenario. The Bank's ECL methodology considers weighted average of multiple economic scenarios for the risk parameters (basically the forecast macroeconomic variables) in arriving at impairment figure for a particular reporting period. The model is structured in a manner that the final outcome, which is a probability cannot be negative.

SICR is assessed once there is an objective indicator of a deterioration in credit risk of customer. In addition, the Bank as part of its routine credit processes perform an assessment on a quarterly basis to identify instances of SICR.

Multiple forward-looking scenarios

The Bank determines allowance for credit losses using three probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Bank prepares the scenarios using forecasts generated by credible sources such as Business Monitor International (BMI), International Monetary Fund (IMF), Ministry of Finance (MF), World Bank (WB), Ethiopian Central statistical Agency (ECSA), and United nation conference on trade and development (UNCTAD)

The Bank estimates three scenarios for each risk parameter (LGD, EAD, CCF and PD) – Base, Upside and Downside, which in turn is used in the estimation of the multiple scenario ECLs. The ' Base case' represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region.

The Bank adopts a multi factor approach in assessing changes in credit risk. This approach considers: Quantitative (primary), Qualitative (secondary) and Back stop indicators which are critical in allocating financial assets into stages.

The quantitative models considers deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors considers information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc.

A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 90 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

Definition of Default and Credit Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is '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; Others include death, insolvency, breach of
* covenants, etc.
* A breach of contract such as a default or past due event;
* The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
* 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.
* The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. "

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

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a creditimpaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Bank considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation."

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Banks's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Bank performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer creditimpaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

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 debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.
* for loan commitments and financial guarantee contracts: as a provision; and
* where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision."
* "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; and
* the remaining amount of change in the fair value is presented in profit or loss

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see below:

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

• it has been incurred principally for the purpose of repurchasing it in the near term; or
• on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
• it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the banking is provided internally on that basis; or
• it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not

prohibited.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition. Such financial liabilities are detailed in note 2.2.4

Fair value is determined in the manner described in note 4.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Modification and derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Bank recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Bank recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Bank Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Transition

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 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 Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 2.2.4

2.5 Financial assets and liabilities (continued)

Policy applicable before 1 July 2018

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.

(a) Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or a mortised cost as described below.

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is , derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and comissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchange and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost

Is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write – down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method

Is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(b) Classification of financial assets

Financial assets have the following categories; (a) loans and receivables; (b) available – for – sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss, Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Bank intends to sell in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivable may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

(c) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities, Liabilities held for trading are carried at fair value with changes in value recognized in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortized cost.

(d) Financial assets

(i) Initial recognition and measurement

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

(ii) Subsequent measurement

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

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

(a) Loans and receivables

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

The Bank's loans and receivables comprise of Agricultural loans, Interest-Free loans, Industry loans, Domestic Trade and Service loans, Export loans, Import loans, Construction loans, Transport and communication loans, Hotel and tourism loans, Mining, power and water resources loans, Microfinance institution loans, Mortgage loans, Consumer and personal loans and Staff loans.

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

AFS investments include equity and debt 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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 income statement in impairment loss on financial investment. Interest earned whilst holding AFS financial investments is reported as interest and similar income using the EIR method. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

The Bank evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount 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 profit or loss. Refer to the information below under reclassification.

'Day 1' profit or loss

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

Reclassification of financial assets

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does 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 income statement 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 income statement.

The 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 Bank subsequently increases its 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 Bank of similar financial assets) is primarily derecognised (i.e. removed from the Bank's statement of financial position) when:

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

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

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

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

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

Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a Bank 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 Bank of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a Bank 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.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in income statement.

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.

2.5 Financial assets and at amount cost (continued)

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 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 Banked on the basis of the 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 Bank 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 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 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.

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

(a)Probability of Default

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

(b) Loss Given Default

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.

(c) Exposure at Default

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

Impairment assessment (continued)

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

(d) Individual assessment

The Bank reviewed and revised 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 estimated the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount.

(e) 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.

Collective assessment (Contd)

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.

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

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. The Bank revalues its property at least after every 3 years and revalues motor vehicles at least once in every 2 years.

Collateral repossessed

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

No. 7

value at the repossession date in line with the Bank's policy.

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 Bank's financial liabilities include customer deposits and other liabilities. Interest expenditure is recognised in interest and similar expense.

Subsequent measurement

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

Financial liabilities at amortised cost

Financial instruments issued by the 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 Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Derecognition of financial liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where The Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Bank or the counterparty.

2.7 Interest Free Financing and Investment products before and after 01 July 2018

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products which are approved by its Sharia'h Supervisory Committee.

All Interest Free banking products are accounted for in conformity with the accounting policies described below:

With regard to Interest free banking products except impairment policy, no change is noted in adoption of IFRS 9 . The impairment policy of interest free financing products are similar with the policy stated above before and after adoption of IFRS-9

(i) Definition of Key Terms

Murabaha

An agreement whereby the bank sells to a customer a commodity or a property which the bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

Istisna

An agreement between the bank and a customer, whereby the bank develops and sells a property to the customer according to the specifications agreed upon. The bank may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre-agreed date and against fixed price.

Ijarah

An agreement whereby the bank (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

Salam

A contract whereby the bank purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The bank makes profit on Salam transactions, when the Salam commodities are received from the Salam customer and subsequently sold to a third party at profit

Interest Free Export Financing Facility

A non-profit bearing financing enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Mudaraba

A contract between the bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Musharaka

A contract between the bank and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either ongoing basis or for a limited time, during which the bank enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

Accounting policy for Interest Free Financing and Investment Products)

a) Murabaha financing

Murabaha financing receivables are deferred sale agreements whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Amounts receivable from Murabaha financing receivables are initially stated in the Statement of Financial Position at selling price. And Subsequently, they shall be stated at selling price less unearned income and provision for impairment at the reporting date.

b) Istisna

Istisna is an agreement between the Bank and a customer whereby the Bank sells to the customer an asset which is either constructed or manufactured by the purchaser on behalf of the Bank according with agreed-upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as well as the accrued income as of the date of the statement of financial position against assets being either constructed or manufactured.

After completion of the project, the Istisna asset is transferred to the Istisna receivable account and carried at the value of amounts disbursed, plus income accumulated over the manufacturing period, less provision for impairment.

c) Ijarah assets

Ijarah assets are initially stated in the Financial Statement of the Bank at cost.Subsequently, they shall be stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged from the date of recognition of ijarah assets on a straight line basis over the period of Ijarah. Impairment of Ijarah assets is determined on the same basis as that of operating fixed assets.

d) Salam Financing

Salam financings are reflected in the Financial Position of the Bank as receivables at the invoiced amount. Profit not due for payment is deferred and is recognized on a time proportion basis.

e) Interest Free Export Financing Facility

Interest Free Export Financing Facility is a short term financing given to the borrower for three months free of any charge or profit and not subject to discounting being a short term facility. Interest Free Export Facility Financing is stated in the statement of financial Position of the bank at the fair value of the consideration given(amounts of disbursement). and Subsequently, they shall be stated at disbursement amount less impairment (if any).

f) Mudaraba Investment

Mudaraba investment is based on the profit-sharing and loss-bearing Mudaraba contract where profits are shared between the parties based on the terms of the Mudaraba agreement. Initially Mudaraba contracts are stated in the statement of financial Position of the bank at fair value of the consideration given (amount of disbursement) and Subsequently, they shall be stated at fair value of the consideration given, less impairment.

g) Musharaka

In Musharaka based financing, the Bank enters into a Musharaka based on partnership for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic rental payment agreement for the utilization of the Bank's Musharaka share by the customer. Initially Musharaka and Diminishing Musharaka Financing are stated in the statement of financial Position of the bank at fair value of the consideration given (amount of disbursement) and Subsequently, they shall be stated in the financial Position of the Bank at disbursement amount less impairment.

Allowance for impairment is made against Interest Free financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 2.5.1). Interest Free financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from the following financing and investing receivables is recognized on the as follows policy:

(i) Murabaha

Murabaha income is recognized on a time apportioned basis over the period of the contract based on the outstanding principal amounts.

(ii) Istisna

Istisna revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istisna cost) are accounted for on a time proportion basis.

(iii) Ijara

Ijara income is recognized on a time apportioned basis over the lease term.

(V) Salam

Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

(vi)Mudaraba

Income or losses on Mudaraba financing are recognized on an accrual basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to the Bank's Statement of profit and loss on their declaration by the Mudarib.

(vi) Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

(vii) Forfeited income

According to the Bank's Fatwa and Sharia'a Supervisory committee, the bank is required to identify any income deemed to be derived from transactions not acceptable under Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory committee, and to set aside such amount in a separate account used to pay for charitable causes and activities.

(iv) Interest Free Banking customers' deposits and distributions to depositors

a) Interest Free Banking customers' deposits

Interest Free Banking customers' deposits such as Amana, Wadiaha and Mudaraba and other deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their carrying value.

b) Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders.

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 and restricted balances with National Bank of Ethiopia.

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 Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in income statement 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 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:

2.10 Property, plant and Equipment (continued)

Asset class	Useful life (years)
Buildings	50
Furniture and fittings	10-20
Equipment	5-10
Motor Vehicles	10
Computer and accessories	7-10

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

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

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

2.11 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 income statement in the period in which the expenditure is incurred .

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 income statement.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

- Swift software – 6 years
- Core Banking software – 6 years
- Mobile and agent banking software – 6 years

2.12 Investment property

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

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

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at cost 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 Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

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

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

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

2.13 Non-current assets (or disposal Banks) held for sale and discontinued operations

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

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

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

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

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

2.14 Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Banks 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 Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

2.15 Other assets

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

(a) Prepayment

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

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

2.16 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 4 and Note 15.14.1
- Quantitative disclosures of fair value measurement hierarchy Note 15.14.2
- Financial instruments (including those carried at amortised cost) Note 15.14.2"

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

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

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

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

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

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

• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

2.17 Employee benefits

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

(a) Defined contribution plan

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;

ii) provident fund contribution, funding under this scheme is 7% and 14% by employees and the Bank respectively;

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

(b) Defined benefit plan

The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 the income statement 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 are payable to executive directors 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.

2.18 Provisions

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

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

2.19 Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.21 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to income statement over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

2.22 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment 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 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 the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Bank as a lessor

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

2.23 Income taxation

(a)Current income tax

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

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

(b)Deferred tax

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

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

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 Bank 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.

4 Significant accounting judgements, estimates and assumptions

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

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

• Capital management Note 5

• Financial risk management and policies Note 4.1

• Sensitivity analyses disclosures Note 5.6.2"

4.1 Judgements

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

Operating lease commitments - Bank as lessee

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

4.2 Estimates and assumptions

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

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 judgement is required in establishing fair values. Judgements 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 5.14 for further disclosures.

Defined benefit plans

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

Depreciation and carrying value of property, plant and equipment

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

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 Bank is 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.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, 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 judgement 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.

Development cost

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

5 Financial risk management

5.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.

5.2 Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board of Directors Risk Management and Compliance Committee (BDRMCC) has the overall responsibility for the development of risk strategy and implementing principles, framework, polices and limit. This subcommittee is also responsible for managing risk decisions and monitoring risk levels and report on monthly and quarterly basis to regulatory organ and the management.

The Risk Management and Compliance unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. This unit closely works with BDRMCC to ensure that procedures are complaint with overall framework.

The risk management function is a carried out in respect of financial risks (credit, market, and liquidity risks) and operational risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The Risk Management and Compliance Department is also responsible for ensuring that appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The Bank's risk management methodology polices and assessment procedures are designed to identify, analyze, mitigate and manage the risk faced by the Bank. This is accomplished through setting of appropriate risk limits and controls, whilst ensuring suitable monitoring of risk levels and compliance with the limits and procedures on an ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered, this is to ensure that "best practices" are implemented in the Bank.

Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialized bodies within the Bank, including committees and departments to comply with the requirement of the pertinent laws and industry best practices.

The Board of Directors has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management polices and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management, the Risk Management Committee, the Credit Committee, the Audit Committee and the Asset and Liability Committee ("ALCO").

The Risk Management and Compliance sub Committee is appointed by and reports directly to the Board of Directors.

5.2.1 Risk measurement and reporting systems

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

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

5.2.2 Risk mitigation

The bank uses board approved risk tolerance limit as a risk limit control. This risk tolerance limit composed of risk limit by economic sector, by credit product, by maturity, by geography and risk grade. There also limitation imposed by the regulatory organ such as single borrower limit, related party limit, off balance sheet exposure limit and connected counterparties limit to which all banks should comply.

As the credit risk mitigation, the bank established an appropriate risk environment, sound credit strategies, policies and procedures. In addition, there is active portfolio management, appropriate credit administration and monitoring and effective loan review function.

The other credit risk mitigation measures are obtaining sufficient collateral securities and guarantees for loans and advances as the second way out in case of default

5.3 Financial instruments by category

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

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

The Bank's classification of its financial assets is summarised in the table below:

30 June 2019	Notes	FVOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and cash equivalents	16	-	5,120,927	5,120,927
Loans and advances to customers	17	-	15,323,833	15,323,833
Interest Free Financing	18	-	1,890,738	1,890,738
Investment securities:				
- Financial assets at fair value through OCI (2018-AFS)	19	95,478	-	95,478
-Financial assets at amortized cost (2018-Loans and Receivables)	19	-	7,073,001	7,073,001
Other assets	20	-	837,537	837,537
Total financial assets		**95,478**	**30,246,036**	**30,341,514**

30 June 2018	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and cash equivalents	16	-	5,809,127	5,809,127
Loans and advances to customers	17	-	9,968,573	9,968,573
Interest Free Financing	18	-	1,621,293	1,621,293
Investment securities:		-	-	-
- Financial assets at fair value through OCI (2018-AFS)	19	68,705	-	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	19	-	4,855,817	4,855,817
Other assets	20	-	218,291	218,291
Total financial assets		**64,029**	**15,540,258**	**15,604,287**

5.4 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge his/her/its obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets including likelihood that borrower or counterparty fails to meet their obligations in accordance with agreed terms.

The bank manages and controls credit risk by setting limits on the amount of risk it is willing to take or accept for individuals counterparties and for economic sector ,product and maturity concentration and by monitoring exposures in relation to such limits.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Bank, These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating and scoring systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the National Bank of Ethiopia (NBE), related to lending operations, have also been carefully considered and embedded into the Bank's credit policy.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrowers, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent reviews.

The Bank established control over authorization of the loans issued. The credit Committee reviews and approves all loans exceeding certain amount and or having exceptional terms.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, kin part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the Credit management,Interest free banking and compliance and risk management department's. Based on a structured analysis, deteriorating creditworthiness is reported to, and reviewed by, the Management and Board of Directors.

The Bank does not use formalized internal credit ratings for retail loans to monitor exposure to credit risk. Management monitors and follows up on past due balances on monthly basis.

The Bank's credit monitoring and recovery office reviews the ageing analysis of outstanding loans and follows up on past due balances on monthly basis. Management therefore, considers it appropriate to provide ageing and other information about credit risk.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the loan contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures."

4.3.1 Management of credit risk

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

5.4.2 Credit related commitment risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

5.4.3 Maximum exposure to credit risk before collateral held or credit enhancements

(a) Types of credit exposure

The banks maximum exposure to credit risk at 30 June 2019 and 30 June 2018 is represented by the net carrying amounts in the statement of financial position.

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Cash and cash equivalents	5,120,927	5,809,127
Loans and advances to customers	15,323,833	9,968,573
Interest Free Financing	1,890,738	1,621,293
Investment securities:		
- Financial assets at fair value through OCI (2018-AFS)	95,478	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	7,073,001	4,855,817
Other assets	837,537	218,291
Total financial assets	**30,341,514**	**22,541,806**

Credit risk exposures relating to off balance sheets are as follows:

Loan commitments	2,242,471	1,451,049
Financing commitment on Interest Free Banking	1,799,804	1,197,882
Letter of credit net of margin held	455,292	361,294
Commitment on letter of credit net of urbun held	39,800	105,350
Guarantees	1,365,208	855,316
Total off balance sheet exposure	5,902,575	3,970,891
Total maximum exposure	**36,244,089**	**26,512,697**

(b) Assets obtained by taking possession of collateral

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Buildings	28,863	29,930
Motor vehicles	-	-
	28,863	**29,930**

The Bank's policy is to pursue timely realisation of the collateral in a timely manner. The Bank does not generally use the non-cash collateral for its own operations.

(c) Loans and advances to customers at amortised cost,

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Agriculture	226,738	206,345
Industry	1,486,938	1,051,846
Domestic trade and services	4,681,099	2,907,290
Export	3,860,093	2,687,653
Import	1,060,543	595,749
Construction	1,858,505	1,016,354
Transport and communication	250,135	264,832
Hotel and tourism	957,211	681,631
Mining, power and water resources	-	-
Microfinance institution	42,535	42,514
Mortgage Loan- Staff	588,619	352,801
Mortgage Loan- Customer	333,748	70,415
Personal Loan -Staff loans	87,061	59,873
Emergency staff loans	123,533	103,319
Consumer Loans- Customer	39,332	19,867
Gross Loans and advances	**15,596,090**	**10,060,489**

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

(ii) Interest free financing per sector is analysed as follows:

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Murahabah Financing- Agriculture	100,505	87,399
Murahabah Financing- Construction	251,261	122,620
Murahabah Financing- Agriculture Merchandize	-	-
Murahabah Financing- Industry	330,038	185,195
Murahabah Financing- DTS	648,393	408,963
Murahabah Financing- Export	-	-
Interest Free Export Facility Financing	208,425	481,990
Murahabah Financing- Import	158,561	169,402
Murahabah financing	-	-
Murahabah Financing- Hotel and Tourism	18,177	11,796
Murahabah Financing- Transport and Communication	107,117	118,309
Muruhabah Financing- Consumer and Personal	-	-
Gross Interest Free Financing	**1,822,477**	**1,585,674**

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Pass	14,651,264	9,359,467
Special mention	389,441	311,619
Substandard	254,324	219,973
Doubtful	146,258	88,471
Loss	154,803	80,958
Gross Loans and Advances	**15,596,090**	**10,060,488**

(iv) Interest Free Financing per National Bank of Ethiopia's impairment guidelines is analysed as follows:

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Pass	1,554,596	1,106,606
Special mention	162,779	401,619
Substandard	54,275	28,351
Doubtful	8,515	22,396
Loss	42,312	26,703
Gross Interest Free Financing	**1,822,477**	**1,585,675**

5.4.4 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2019) and available-for-sale debt assets (2018). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.5

(i) Loans and advances to customers at amortized cost

Birr'000				2019	2018
Credit risk exposure	Stage 1 12 Month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	TOTAL	Total
Stage 1 – Pass	14,651,264	-	-	14,651,264	9,359,467
Stage 2 – special mention	-	389,441	-	389,441	311,619
Stage 3 - Non performing	-	-	555,386	555,386	389,402
Total gross exposure	-	-	-	-	10,060,488
Loss allowance	(127,455)	(11,819)	(132,982)	(272,257)	(91,916)
Net Carrying amount	14,523,809	377,622	422,404	15,323,833	9,968,573

(ii) Interest Free Financing measured at amortized cost

Birr'000				**2019**	**2018**
Financing risk exposure	**Stage 1 12 Month ECL**	**Stage 2 Life time ECL**	**Stage 3 Life time ECL**	**Total**	**Total**
Stage 1 – Pass	1,554,596	-	-	1,554,596	1,106,606
Stage 2 – special mention	-	162,778.54	-	162,779	401,619
Stage 3 - Non performing	-	-	105,102.28	105,102	77,450
Total gross exposure	1,554,596	162,778.54	105,102.28	1,822,477	1,585,675
Loss allowance	7,930	7,165	38,331	53,427	(41,509)
Net Carrying amount	**1,546,666**	**155,613.21**	**66,771.34**	**1,769,051**	**1,544,165**

(iii) Other financial assets

Birr'000			**2019**
Credit risk exposure	**Gross exposure**	**Loss allowance**	**Net carrying amount**
cash and cash equivalents	**5,120,927**	**(181.00)**	**5,120,746**
Investment secuities (debt instruments)	**7,073,001**	**(354.00)**	**7,072,647**
Other receivables and financial assets	**837,537**	**(5,926.00)**	**831,611**
Totals	**13,031,465**	**(6,461.00)**	**13,025,004**

(iv) other financial assets (continued)

Birr'000	**2018**		
Credit risk exposure	**Gross exposure**	**Loss allowance**	**Net carrying amount**
cash and cash equivalents	**5,809,127**	**-**	**5,809,127**
Investment secuities (debt instruments)	**4,855,817**	**-**	**4,855,817**
Other receivables and financial assets	**236,526**	**(18,235)**	**218,291**
Totals	**10,901,470**	**(18,235.30)**	**10,883,235**

v) Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

vi) Investment securities designated as at FVTPL

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

5.4.4 Amounts arising from ECL

i) inputs, assumptions and techniques used for estimating impairement

See accounting policy in note 2.5

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; with

• the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

• the Bank uses three criteria for determining whether there has been a significant increase in credit risk:

• quantitative test based on movement in PD;

• qualitative indicators; and

• a backstop of 30 days past due,

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

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

a. Term loan exposures

• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance

•Data from credit reference agencies, press articles, changes in external credit ratings

•Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

•Internally collected data on customer behaviour – e.g. utilisation of credit card facilities

•Affordability metrics

b. Overdraft exposures

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

iv) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed 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.

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 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 ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;

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

vi) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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 ECL.

For each segment the Bank formulates three economic scenarios: a base case, which is the median scenario , and two less likely scenanios, one upside and one downside. for each sector, the base case is aligned with the macroecnomic molel's information value output, ameasure of the predicive power of the predicitive power of the mode, as well as base macroeconmic projections for identified macroeconomic variables for each sector. The upside and downside scenarios are based on a combination of a measure of historical macroeconomic volatilites.

External information considered includes economic data and forecasts published by Business Monitor International, an external and independent macroeconmic date body, This is in addition to industry-level, semi annual NPL trends across statically 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 foreach portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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

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

The economic scenarios used as at 30 June 2019 included the following key indicators for Ethiopia for the years 2019 to 2023:

Macro-economic factor	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317.4	349.1	384
GDP: GDP per capita, USD	836	928	1019
GDP EXPENDITURE: Exports of goods and services, USD per capita	54.9	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	179.8	213.8	260.3
EXCHANGE RATE: ETB/USD	29.23	31.1	33.15
GDP EXPENDITURE: Imports of goods and services, USDbn	16.6	16.9	17.1
FISCAL: Current expenditure, USDbn	7.8	8.3	8.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	485.3	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	296.3	326	358.6
DEBT: Government domestic debt, ETBbn	642.7	752	872.3
EXCHANGE RATE: Real effective exchange rate, index	123.13	121.01	117.74
GDP EXPENDITURE: Private final consumption, USDbn	58.9	66.2	73.5
STRATIFICATION: Household Spending, ETBbn	1707.6	1926.3	2149.3
FISCAL: Total revenue, USDbn	10.5	10.9	11.4
DEBT: Total government debt, USDbn	57	65.2	75.4

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing 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; withthe 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. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

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

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

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recoverycosts 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 observationsand 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 increasein credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

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

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

x) Loss allowance

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

		2019		
Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers and Interest Free Financing at amortised cost (on balance sheet exposures)	-	-	-	**133,426**
Balance as at 1 July 2018	57,359	7,313	94,626	25,872
Day one IFRS 9 transition adjustment	13,507	(2,408)	(11,098)	-
Adjusted balance at 1 July 2018	**70,866**	**4,905**	**83,527**	**159,298**
Transfer to stage 1	13,507	(2,408)	(11,098)	-
Transfer to stage 2	(816)	1,575	(759)	-
Transfer to stage 3	(1,345)	(459)	1,804	-
Net remeasurement of loss allowance	2,324	2,373	80,691	85,388
New financial assets originated	56,723	8,656	36,997	102,376
Financial assets derecognised	(17,719)	(4,158)	(36,688)	(58,566)
Balance as at 30 June 2019	**110,031**	**12,891**	**165,573**	**288,496**

2019

Birr'000	Stage 1	Stage 2	Stage 3	Total
Loan commitments and financial guarantee contracts (off balance sheet exposures)				
Balance as at 1 July 2018	-	-	-	-
Day one IFRS 9 transition adjustment	11,980	-	1,533	13,513
Adjusted balance at 1 July	11,980	-	1,533	13,513
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(354)	354	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	4,664	223	3,418	8,305
New financial assets originated	15,230	5,517	809	21,555
Financial assets derecoginzed	(6,131)	(0)	(159)	(6,291)
Balance as at 30 June 2019	**25,389**	**6,093**	**5,740**	**37,083**

	2019			
In Birr'000	Cash and balances with banks	Investment securities (debt instruments)	Other receivables and financial assets	Total
Other financial assets (debt instruments)	-	-	-	-
Balance as at 1 July 2018	-	-	18,235	18,235
Day one IFRS 9 transition adjustment	196	243	(14,970)	(14,530)
Adjusted balance at 1 July 2018	196	243	3,265	3,705
Net remeasurement of loss allowance	(15)	111	2,661	2,757
Balance as at 30 June 2019	181	354	5,926	6,461

Credit quality analysis for loans and advances comparative information under IAS 39 summarized as follows;

(a) credit quality of loans and receivables

	Neither past due nor impaired	Past due but not impaired	Collectively Impaired	Individually impaired	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
30 June 2018					
Agriculture	152,433	30,251	12,355	11,306	206,345
Industry	1,016,749	6,154	6,484	22,459	1,051,846
Domestic trade and services	2,617,169	106,606	114,269	69,246	2,907,290
Export	2,630,270	22,321	9,023	26,039	2,687,653
Import	545,574	33,050	17,125	-	595,749
Construction	927,466	53,367	17,224	18,297	1,016,354
Transport and communication	237,623	11,648	15,560	-	264,832
Hotel and tourism	588,918	45,525	9,327	37,861	681,631
Mining, power and water resources	-	-	-	-	-
Microfinance institution	42,514	-	-	-	42,514
Mortgage Loan- Staff	350,386	1,160	1,255	-	352,801
Mortgage Loan- Customer	69,382		1,033	-	70,415
Personal Loan-Staff	59,482	391	-	-	59,873
Emergency staff loans	103,319	-	-	-	103,319
Consumer loans- Customer	18,182	1,147	538	-	19,867
Gross	**9,359,467**	**311,619**	**204,193**	**185,209**	**10,060,489**
Less: Impairment allowance	(41,462)	(1,457)	(24,111)	(24,885)	(91,916)
Net	**9,318,005**	**310,162**	**180,082**	**160,324**	**9,968,573**

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

The credit quality of the portfolio of loans and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and receivables in this category are short term loans past due for less than 30 (thirty) loans and medium and long term loans past due for less than 180 (one hundred eighty) days.

	30 June 2018
	Birr'000
Neither past due nor impaired	9,359,467
Collective impairment	(41,462)
Loan and receivables (net)	**9,318,005**

(b) credit quality of loans and receivables (continued)

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

	30 June 2018
	Birr'000
Past due up to 90 days	311,619
Collective impairment	(1,457)
Loan and receivables (net)	**310,162**

(iii) Loans and receivables - collectively impaired

Past due by 90 - 180 days	122,677
Past due by 180- 360 days	58,182
Past due by more than 360 days	23,334
Collective impairment	(24,111)
Loan and receivables (net)	**180,082**

Loans and receivables that have been classified as neither past due nor impaired or past due but not impaired and collectively impaired are assessed on a collective basis.

(iv) Loans and receivables -individually impaired loans

	30 June 2018
	Birr'000
Substandard	97,297
Doubtful	30,289
Loss	57,623
Specific impairment	(24,885)
Loan and receivables (net)	**160,324**

(v) Allowance for impairement

	30 June 2018
	Birr'000
Specific impairment	24,885
Collective impairment	67,031
Total allowance for impairment	**91,916**

(c) credit quality analyis of interest free financing products comparative information under IAS 39 summarized as follows;

30 June 2018	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Collectively Impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Murahabah Financing- Agriculture	59,317	24,304	3,777	-	87,399
Murahabah Financing- Construction	104,763	17,856	-	-	122,620
Murahabah Financing- Industry	168,352	16,841	2	-	185,195
Murahabah Financing- DTS	300,396	97,560	11,008	-	408,963

Interest Free Export Facility Financing	221,542	218,826	8,075	33,546	481,990
Murahabah Financing- Import	134,319	19,428	319	15,336	169,402
Murahabah financing	-	-	-	-	-
Murahabah Financing- Hotel and Tourism	11,796	-	-	-	11,796
Murahabah Financing- Transport and Communication	106,120	6,803	5,386	-	118,309
Muruhabah Financing- Consumer and Personal	-	-	-	-	
Gross Financing	**1,106,606**	**401,619**	**28,569**	**48,882**	**1,585,674**
Profit receivable from Murubaha Financing					262,420
Less: Deferred profit					**(185,291)**
Less: Impairment allowance	**(5,167)**	**(2,205)**	**(3,194)**	**(30,944)**	**(41,509)**
Net carrying amount	**1,101,439**	**399,413**	**25,375**	**17,938**	**1,621,294**

(i) Interest Free Financing - neither past due nor impaired

The credit quality of the portfolio of Interest Free Financing and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience.Interest Free financing and receivables in this category are short term Financing past due for less than 30 (thirty) Interest Free financing and medium and long term financing past due for less than 180 (one hundred eighty) days.

	30 June 2018 Birr'000
Neither past due nor impaired	1,106,606
Collective impairment	(5,167)
Net carrying amount	**1,101,439**

(c) credit quality analyis of interest free financing products (continued)

(ii) Interest free financing -past due but not impaired

	30 June 2018 Birr'000
Past due up to 90 days	401,619
Collective impairment	(2,205)
Interest Free Financing (net)	**399,413**

(iii) Interest free financing- collectively impaired

Past due by 90 - 180 days	11,083
Past due by 180- 360 days	15,782
Past due by More than 360 days	1,703
Gross	**28,569**
Collective impairment	**(3,194)**
Interest Free Financing (net)	**25,375**

(iv) Interest Free Financing -individually impaired financing

		30 June 2018
		Birr'000
Substandard		17,268
Doubtful		6,614
Loss		25,000
Specific impairment		(30,944)
Interest Free Financing (net)	-	**17,938**

(v) Allowance for impairment

		30 June 2018
		Birr'000
Specific impairment		30,944
Collective impairment		10,566
Total allowance for impairment	-	**41,509**

5.4.5 Credit quality analysis

(a) Credit quality of cash and cash equivalents

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
AAA+	-	-
AA	-	-
B	-	-
BBB	1,291,200	1,287,479
Not rated	3,829,727	4,521,648
Total	**5,120,927**	**5,809,127**

5.4.6 Statement of Prudential adjustments

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

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

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

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

• Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve".

• Prudential provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve(retained earnings) account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital."

During the period ended 30 June 2018, the Bank transferred an amount of Birr 121,540 million to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IAS 39 as at year end.

In line with the same directive of the NBE, the Bank compared the provision based on the Directive with impairment under IFRS-9 for comparative periods and hence the bank transfered an amount of Birr 121,540 million to retained earnings from the regulatory risk reserve as the impairment balance under IFRS was higher for the year 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Total impairment based on IFRS	325,683	133,426
Total impairment based on NBE Directives	302,422	254,966
Variation	**23,261**	**(121,540)**

In line with the directive of the NBE, the Bank compared the provision for other assets based on the Directive with impairment for other assets under IFRS-9 for same period and hence the bank transfered an amount of Birr 16,008 million from retained earnings to the regulatory risk reserve as the impairment balance under IFRS was lower for the year 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Total Impairment for other Assets Based on IFRS	6,637	-
Total Impairement for other Assets Based on NBE directives	45,906	-
Excess amount for Other Assets Provision	(39,269)	-
Amount Transferred to Regulatory Risk Reserve	**(16,008)**	**-**

As per the requirements of IFRS , banks should recognize interest income on the written down amount of the loan after the impairment loss, on an accrual basis, using the EIR. However, As per the requirement of National Bank of Ethiopia, banks should derecognized interest income on impaired exposures, special attention should be paid to impaired exposures with a higher number of days past due (e.g. more than 90 days past due).

	30 June 2019 Birr'000	30 June 2018 Birr'000
Write backed Suspended interest	41,351	24,065
Realized interest from last year Non impaired loans and advances	(14,586)	-
Net amount transferred to regulatory risk resrve	**26,764**	**24,065**

5.4.7 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2019 and 30 June 2018. The Bank concentrates all its financial assets in Ethiopia.

30 June 2019	Domestic and Trade Services Birr'000	Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and cash equivalents				5,120,927
Loans and receivables	4,681,099	3,860,093	1,858,505	5,196,393
Interest Free Financing	648,393	208,425	251,261	714,398
Investment securities:				
- Financial assets at fair value through OCI (2018-AFS)	-	-	-	95,478
-Financial assets at amortized cost (2018-Loans and Receivables)	-	-	-	7,073,001
Other financial assets	-	-	-	837,537
Total financial assets	**5,329,492**	**4,068,518**	**2,109,766**	**19,037,734**

30 June 2018	Domestic and Trade Services Birr'000	Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and cash equivalents	-	-	-	5,809,127
Loans and receivables	2,907,290	2,687,653	1,016,354	3,449,192
Interest Free Financing	408,963	481,990	122,620	572,102
Investment securities:	-	-	-	
- Financial assets at fair value through OCI (2018-AFS)	-	-	-	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	-	-	-	4,855,817
Other financial assets	-	-	-	218,291
Total financial assets	**3,316,253**	**3,169,643**	**1,138,974**	**14,973,234**

5.4.8 Nature of security in respect of loans and advances to customers

30 June 2019	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	526,113	-	4,493	-	-
Domestic trade	8,716,190	852	16,620	62,526	6,652
Export	4,016,838	3,000	77,077	193,088	146,615
Financial Institution	33,049	2,100	-	-	-
Hotel and tourism	2,694,872	-	-	-	15,918
Housing and construction	3,784,579	-	148,122	89,738	-
Import	1,529,263	500	7,500	77,249	-
Industry	2,507,733	12,647	-	2,350	72,253
Mines, Power and Water Resource	-	-	-	-	-

Mortgage Consumer Loan	549,772	-	740	-	-
Mortgage Staff Loan	1,438,248	-	-	500	-
Personal Consumer Loan	147,127	-	-	11,565	357
Personal Staff Loan	196,047	-	-	2,365	-
Transport and communication	514,404	-	-	171,376	-
Total	**26,654,235**	**19,099**	**254,552**	**610,757**	**241,796**

30 June 2018	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	228,769	-	7,710	154,170	-
Domestic trade	6,230,866	-	2,076	276,288	66,610
Export	2,865,362	3,000	3,333	153,491	389,043
Financial Institution	19,972	-	-	-	-
Hotel and tourism	2,512,490	-	-	4,533	25,428
Housing and construction	2,362,172	-	66,988	100,212	10,622
Import	1,939,451	-	15,267	150,249	15,609
Industry	2,307,086	100,050	20,271	26,991	272,371
Mines, Power and Water Resource	-	-	-	-	-
Mortgage Consumer Loan	231,891	-	-	3,757	
Mortgage Staff Loan	921,874	-	-	2,921	112
Personal Consumer Loan	88,904	-	-	2,550	-
Personal Staff Loan	253,139	-	-	1,250	-
Transport and communication	729,804	-	9,099	248,665	103
Total	**20,691,779**	**103,050**	**124,744**	**1,125,077**	**779,898**

5.4.9 Nature of security in respect of Interest Free Financing

30 June 2019	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	238,123	-	-	-	-
Construction	1,218,092	-	-	-	-
Domestic Trade Services	1,263,908	-	-	-	-
Export	621,725	-	-	-	30,000
Hotel and Tourism	2,776	-	-	-	-
Import	580,641	-	-	-	-
Industry	748,009	-	-	-	-
Mortagage	18,619	-	-	-	-
Transport and Communication	322,964	-	-	3,375	-
Total	**5,014,858**	**-**	**-**	**3,375**	**30,000**

30 June 2018	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	158,766	-	-	-	-
Construction	550,037	-	-	-	-
Domestic Trade Services	1,177,605	-	-	-	10,000
Export	704,283	12,831	3,075	17,409	-
Hotel and Tourism	29,059	-	-	-	-
Import	108,258	-	-	-	-
Industry	255,098	-	-	-	-
Transport and Communication	143,227	-	-	-	-
Total	**3,126,334**	**12,831**	**3,075**	**17,409**	**10,000**

5.4.10 Collateral held and their financial effect

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

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

For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

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

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

5.4.11 Write-off policy

The Bank writes off Loans and Advance balance, and any related allowances for impairment losses, when Bank determines that the Loans and advances or security is uncollectible and after approval is obtained. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans and advances, write-off decisions generally are based on a product-specific past due status. There was no amount write off during the year.

5.5.1 Management of liquidity risk

The day-to-day liquidity management is performed by the Accounting and Treasury Department with in a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Risk Management and Compliance Department. The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations' which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the National Bank of Ethiopia (NBE). This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 19.72% as at 30 June 2019 and 31.02% as at June 30,2018 whereas the minimum percentage required by the NBE is 15%.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, maintaining funding contingency plans, and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the NBE.

The Accounting and Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Accounting and Treasury Department then provides for an adequate portfolio of short-term liquid assets, made up of short-term deposits with banks to ensure that sufficient liquidity is maintained within the Bank as a whole.

5.5.2 Maturity analysis of financial liabilities

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

30 June 2019	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	16,825,637	3,365,127	1,121,709	673,025	448,684
Interest Free customers' deposits	3,116,207	623,241	207,747	124,648	83,099
Debt securities issued	-	-	-	-	-
Borrowings	-	-	-	-	-
Other liabilities	1,002,263	-	-	-	-
Total financial liabilities	**20,944,108**	**3,988,369**	**1,329,456**	**797,674**	**531,783**

30 June 2018	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	12,685,304	2,537,061	845,687	507,412	338,275
Interest Free customers' deposits	2,259,958	451,992	150,664	90,398	60,266
Debt securities issued	-	-	-	-	-
Borrowings	-	-	-	-	-
Other liabilities	870,061	-	-	-	-
Total financial liabilities	**15,815,322**	**2,989,052**	**996,351**	**597,810**	**398,540**

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

5.6.1 Management of market risk

The bank manages and control market risk exposures within acceptable limits, while optimizing the return on risk. The Risk Management and Compliance Department is in charge of managing market risk, regularly, to identify any adverse movement in interest rate and foreign currency exchange rate.

(i) Interest rate risk

Interest rate risk is the potential loss on the bank arising from mismatch between positions, which are subject to interest rate adjustment within a specified period, or in any other interest rate relationship. The Bank's lending, funding and investment activities give rise to interest rate risk. The bank conduct thorough and stress testing on unexpected changes in the general level of interest rate, market interest rate, key assumptions and parameters, and monitor interest rate risk factor on ongoing basis.

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

30 June 2019	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	1,793,437	-	3,327,490	5,120,927
Loans and advances to customers	15,323,833	-	-	15,323,833
Interest Free Financing	-	-	1,890,738	1,890,738
Investment securities	7,073,001	-	-	7,073,001
Total	**24,190,271**	**-**	**5,218,228**	**29,408,499**
Liabilities				
Deposits from customers	22,434,183	-	-	22,434,183
Interest Free customers' deposits	-	-	4,154,943	4,154,943
Debt securities issued	-	-	-	-
Borrowings	-	-	-	-
Other liabilities	-	-	1,002,263	1,002,263
Total	**22,434,183**	**-**	**5,157,206**	**27,591,389**

5.6.2 Management of market risk (continued)

30 June 2018	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	2,076,501	-	3,732,626	5,809,127
Loans and advances to customers	9,968,573	-	-	9,968,573
Interest Free Financing	-	-	1,621,293	1,621,293
Investment securities	4,855,817	-	-	4,855,817
Total	**16,900,891**	**-**	**5,353,919**	**22,254,810**

Liabilities				
Deposits from customers	16,913,738	-	-	16,913,738
Interest Free customers' deposits	-	-	3,013,277	3,013,277
Other liabilities	-	-	870,061	870,061
Total	**16,913,738**	-	**3,883,338**	**20,797,076**

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 . The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

30 June 2019	"Increase (decrease) in basis points" Birr'000	"Sensitivity of profit or loss" Birr'000	"Sensitivity of equity" Birr'000
	10%	(6)	(6)
	-10%	6	6

30 June 2018	Increase (decrease) in basis points Birr'000	"Sensitivity of profit or loss" Birr'000	"Sensitivity of equity" Birr'000
	10%	(144)	(144)
	-10%	144	144

(ii) Foreign exchange risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 708,888 million (30 June 2018: Birr 807,346 million).

Foreign currency denominated balances

30 June 2019

	USD Birr'000	EURO Birr'000	GBP Birr'000	Total Birr'000
Financial assets				
Cash and bank balances	1,365,000	17,502	3,777	1,386,279
Financial liabilities				
Deposit from customers	666,072	11,203	117	677,391
Net foreign currency denominated balances	**698,928**	**6,299**	**3,660**	**708,888**

30 June 2018

	USD Birr'000	EURO Birr'000	GBP Birr'000	Total Birr'000
Financial assets				
Cash and bank balances	1,231,763	106,580	1,250	1,339,593
Financial liabilities				
Deposit from customers	525,328	6,680	239	532,247
Net foreign currency denominated balances	**706,435**	**99,900**	**1,011**	**807,346**

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% and its impact on Profit and Loss as shown below:

	30 June 2019 Birr'000	30 June 2018 Birr'000
10% appreciation in exchange rate for USD	69,893	70,643
10% depreciation in exchange rate for USD	(69,893)	(70,643)
10% appreciation in exchange rate for EURO	630	9,990
10% depreciation in exchange rate for EURO	(630)	(9,990)
10% appreciation in exchange rate for GBP	366	101
10% depreciation in exchange rate for GBP	(366)	(101)

5.7 Capital management

The Bank's objectives when managing capital are (i) To ensure that the bank has adequate capital and effective plans to prudently manage its capital and meets regulatory requirements; (ii) To ensure that the Bank's risk appetite is based on a capital adequacy ratio sufficient for the Bank to continue its business activities;(iii) To ensure that Bank's capital is adequate to absorb unforeseen losses and thus provide a source of protection to depositors and other creditors in the event of difficulties; (v) Establishing and implementing sound and prudent policies governing the quantity and quality of capital required to support the bank (vi) Developing and implementing appropriate and effective policies to monitor, on an ongoing basis, bank's capital requirements and capital position to ensure that the institution meets its capital requirements and will continue to meet its future capital requirements.

5.7.1 Capital adequacy ratio

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

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Capital		
Capital contribution	2,393,675	1,614,643
Retained earnings	613,086	383,233
Legal reserves	642,233	457,285
Regulatory Risk Reserve	66,838	145,605
	3,715,832	**2,600,766**
Risk weighted assets		
Risk weighted balance for on-balance sheet items	27,370,016	20,258,258
Credit equivalents for off-balance Sheet Items	1,793,153	1,177,753
	29,163,169	**21,436,011**
Risk-weighted Capital Adequacy Ratio (CAR)	**13%**	**12.13%**
TIER 1 CARMinimum required capital	8%	8%
Excess	4.74%	4.13%

5.8 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the banks processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the bank's operations and are faced by all business entities.

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions

b) Requirements for the reconciliation and monitoring of transactions,

c) Compliance with regulatory and other legal requirements ,

d) Documentation of controls and procedures ,

e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,

f) Requirements for the reporting of operational losses and proposed remedial action,

g) Development of contingency plans,

h) Training and professional development,

i) Ethical and business standards ,

j) Risk mitigation, including insurance where this is effective.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the bank.

5.9 Strategic risk

Strategic risk arises from choosing a wrong strategy, unsuccessful implementation of strategy, changes in the competitive environment or responding too slowly to changes. Strategic risks are minimized by means of regular updates of strategic and annual plans. Analyses of the condition and development of the OIB, as well as other analyses and estimates concerning the development of the sector, competition and financial operating environment are utilized in the planning.

5.10 Sharia Non-compliance Risk

This potential loss is arising from the failure to comply with the Sharia rules and principles. The bank manages this risk by strictly adhering to Sharia rules and principles, own policy and procedures and NBE directives.

5.11 Rate of return

A variable rate of return on investment account holders introduces uncertainty regarding the real value of deposit. Asset preservation in terms of minimizing the risk of loss due to a lower rate of return may be important factors in depositors' withdrawal decisions. From the bank perspective, this introduces a "withdrawal risk" that is linked to the lower rate of return relative to other financial institution.

The bank will manage the rate of return risk by putting in place appropriate systems for identifying and measuring the factors which give raise to rate of return risk.

5.12 Displaced Commercial Risk

It is the risk that the bank may confront commercial pressure to pay returns that exceeds the rate that has been earned on its assets financed by investment account holders. The bank forgoes part or its entire share of profit in order to retain its fund providers and dissuade them from withdrawing their funds

5.13 Equity investment risk

This is the risk arising from entering in to a parternership for the purpose of undertaking or participating in a particular financing or general business activity as described in the contract, and in which the provider of finance shares in the business risk. This risk type is relevant under Mudharabah and Musharakah contract. While investment made via Mudharabah and Musharakah instruments may contribute substantially to IFBWS earnings, they entail significant counterparty, market, liquidity, credit and other risks, potentially raising giving rise to volatility in earning and capital.

As the risk mitigation instrument IFBW may require the Mudarib or Musharakah partner to provide collateral or guarantee.

5.14 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 of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

15.14.1 Valuation models

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

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

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

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

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

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

5.14.2 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 categorised. The amounts are based on the values recognised in the statement of financial position.

	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2019	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial assets					
Cash and balances with banks	5,120,927	5,120,927	-	-	5,120,927
Loans and advances to customers	15,323,833	-	-	15,323,833	15,323,833
Interest Free Financing	1,890,738	-	-	1,890,738	1,890,738
Investment securities	7,168,479	-	-	7,168,479	7,168,479
Total	**29,503,977**	**5,120,927**	**-**	**24,383,050**	**29,503,977**
Financial liabilities					
Deposits from customers	22,434,183	-	-	22,434,183	22,434,183
Interest Free customers' deposits	4,154,943	-	-	4,154,943	4,154,943
Other liabilities	1,002,263	-	-	1,002,263	1,002,263
Total	**27,591,389**	**-**	**-**	**27,591,389**	**27,591,389**

	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2018	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial assets					
Cash and balances with banks	5,809,127	5,809,127	-	-	5,809,127
Loans and advances to customers	9,968,573	-	-	9,968,573	9,968,573
Interest Free Financing	1,621,293	-	-	1,621,293	1,621,293
Investment securities	4,924,522	-	-	4,924,522	4,924,522
Total	**22,323,515**	**5,809,127**	**-**	**16,514,388**	**22,323,515**

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

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

Financial liabilities					
Deposits from customers	16,913,738	-	-	16,913,738	16,913,738
Interest Free customers' deposits	3,013,277	-	-	3,013,277	3,013,277
Other liabilities	870,061	-	-	870,061	870,061
Total	**20,797,076**	**-**	**-**	**20,797,076**	**20,797,076**

15.14.4 Valuation technique using significant unobservable inputs – Level 3

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

15.14.5 Transfers between the fair value hierarchy categories

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

5.15 Offsetting financial assets and financial liabilities

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

		30 June 2019 Birr'000	30 June 2018 Birr'000
6	**Interest income from Loans and advances**		
	Interest income earned on deposits	62,107	40,218
	Interest on Investment securities	179,421	124,948
	Interest on Agriculture loans	36,485	33,304
	Interest on Industry loans	202,572	108,578
	Interest on Domestic loans	602,160	459,708
	Interest on Export loans	424,539	233,139
	Interest on Import loans	136,115	107,003
	Interest on Import Bills	-	8,276
	Interest on Construction loans	237,467	169,975
	Interest on Mortgage loans	56,956	31,603
	Interest on Personal loans	9,879	5,950
	Interest on Transport loans	45,401	52,972
	Interest on Hotel and Tourism loans	134,535	112,790
	Interest on Microfinance loans	6,848	4,817
	Interest on Mines, Power and Water loans	-	-
	Interest Earned -on Non- Performing Loan	41,383	3,345
	Interest On Staff Loans	42,204	8,942
	Total	**2,218,072**	**1,505,568**

		30 June 2019 Birr'000	30 June 2018 Birr'000
7	**Income from Interest free financing and investment products**		
		-	
	Income From Murabaha Financing	163,133	115,675

Income from Interest Free Banking-Agriculture	928	1,481
Income from Interest Free Banking-Industry	4,502	2,328
Income from Interest Free Banking-DTS	5,194	6,640
Income from Interest Free Banking-Import	1,227	(1,909)
Income from Interest Free Banking-Construction	3,985	6,132
Income from Interest Free Banking-Transport and communication	857	2,638
Income from Interest Free Banking-Hotel and Tourism	1,338	3,840
Income from Interest Free Banking-Export	159	-
Income from Interest Free Banking-Mines ,Power & Water	63	-
Total	**181,386**	**136,825**

Included within various line items under interest income for the year ended 30 June 2019 is a total of Birr 24,512 million (30 June 2018: Birr 3,256 million) relating to impaired financial assets.

		30 June 2019 Birr'000	30 June 2018 Birr'000
8	**Interest expense**		
	Interest on fixed time deposits	191,942	133,525
	Interest on saving deposits	644,568	409,217
	Interest on demand deposits	293	690
	Interest on NBE Borrowing	-	-
	Interest due to local banks	-	-
		-	
	Total	**836,803**	**543,432**
9	**Distribution to depositors- Interest Free Banking Products**		
	Profit share on Mudharaba deposits	**13**	**166**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Net fees and commission income		
Fee and commission income		
Miscellaneous income	28,675	23,706
Commission on letters of credit	36,544	30,158
Inspection and estimation income	25,027	15,339
Service charge	3,443	4,379
Commitment fee	12,054	3,049
Opening commission	127,517	100,210
Extension commission	30,254	29,887
Confirmation commission	14,988	15,006
Service charge- Foreign	372,323	280,379

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

Swift charges	3,379	3,438
Interest free banking commissions	-	-
	654,204	505,551
Fee and commission expense		
	-	-
Net fees and commission income	**654,204**	**505,551**

		30 June 2019 Birr'000	30 June 2018 Birr'000
10	**Other operating income**		
	Dividend income	6,572	5,038
	Gain on disposal of assets	1,572	133
	Sundry income	8,815	110,246
	Rental income	14,272	16,502
	Gain on foreign exchange	146,410	188,544
	Total	**177,641**	**320,463**

		30 June 2019 Birr'000	30 June 2018 Birr'000
11	**Loan impairment charge**		
	Loans and receivables - charge for the year (Conventional Banking)	143,146	8,971
	Interest Free Financing - charge for the year (Interest Free Banking)	9,775	9,374
	Loans and receivables - reversal of provision (note 15a)	-	
	Total	**152,921**	**18,345**

		30 June 2019 Birr'000	30 June 2018 Birr'000
12	**Impairment losses on other assets**		
	Other assets - charge for the year (note 17)	2,881	11,378
	Interest free financing-charge for the year	-	-
	Other assets - reversal of impairment losses (note 17)	-	
	Total	**2,881**	**11,378**

		30 June 2019 Birr'000	30 June 2018 Birr'000
13	**Personnel expenses**		
	Salaries and wages	497,981	405,059

Pension costs - Defined contribution plan	64,030	51,193
Bonus	75,539	78,105
Other staff expenses	100,779	72,348
Prepaid staff benefit expense	42,204	8,942
Leave expense	18,171	7,024
Total	**798,704**	**622,671**

	30 June 2019 Birr'000	30 June 2018 Birr'000
14 Other operating expenses		
Insurance	7,449	6,392
Repair and maintenance	14,652	12,524
Sundry Expenses	37,973	22,442
Professional Expenses	982	2,168
Occupancy Cost	140,146	104,085
Promotional and Related Expenses	49,952	29,481
Office Expenses	45,124	39,248
Employee Travel Expenses	19,323	14,300
Wages	32,858	22,006
Water	3,901	2,901
Bank	2,491	2,493
Bonus expense	-	-
Severence pay	7,639	6,212
Legal	-	-
Impairment on non-current assets	-	-
Transport	2,461	1,776
Loss on disposal of assets	143	1,220
Amortization of lease	330	127
Total	**365,424**	**267,375**

	30 June 2019 Birr'000	30 June 2018 Birr'000
15 Company income and deferred tax		

15 (a) Current income tax

Company income tax	**261,555**	**212,313**
Prior year (over)/ under provision	-	1,391
Deferred income tax/(credit) to profit or loss	(6,062)	(3,368)
Total charge to profit or loss	255,493	210,337
Tax (credit) on other comprehensive income	-	-
Total tax in statement of comprehensive income	**255,493**	**210,337**

15(b) Reconciliation of effective tax to statutory tax

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Profit before tax	1,001,346	938,042
Add : Disallowed expenses		
Entertainment	2,584	1,764
Donation	260	229
Penalty	-	229
Sponsorship	3,529	426
General Assembly	1,214	1,007
Management Meeting and Promotion	2,329	1,552
Severance Expense	7,990	6,212
Legal Case	83	-
10th Year Anniversary	4,735	-
Third Party Payment for Motor Vehicle	246	-
Adjustment for Inter branch Transaction	69	-
Provision for Other Asset	7,666	-
Provision for loans and advances as per IFRs	155,802	21,741
Depreciation for accounting purpose	73,211	66,998
Amortization for accounting purpose	-	-
Total disallowable expenses	259,718	100,158
Less :		
Depreciation for tax purpose	80,958	73,573
Provision for loans and advances for tax as per NBE (80%)	60,155	76,827
Interest income taxed at source foreign	-	-
Dividend income taxed at source	6,572	5,038
Interest income taxed at source-NBE Bills	179,421	124,948
Interest income taxed at source-Local Deposit	62,107	40,218
Legal Provission taxed last year	-	115
Write back suspended Interest Taxed previous year	-	9,770
	389,215	**330,490**
Taxable profit	**871,850**	**707,710**
Current tax at 30%	**261,555**	**212,313**

15 (c)	Current income tax liability	Birr'000	Birr'000
	Balance at the beginning of the year	210,658	88,748
	Current year provision	261,555	212,313
	Prior year (over)/ under provision	-	
	WHT Notes utilised	250	264
	Payment during the year	210,658	90,139
	Balance at the end of the year	**261,305**	**210,658**

15(d) 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.

	30 June 2019 Birr'000	30 June 2018 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(7,840)	(13,902)
To be recovered within 12 months	-	-
Total	**(7,840)**	**(13,902)**

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

Deferred income tax assets/ (liabilities):	**" At 30 June 2018 "** **Birr'000**	**Credit/ (charge) to P/L** **Birr'000**	**Credit/ (charge) to equity** **Birr'000**	**30 June 2019** **Birr'000**
Property, plant and equipment	(21,980)	1,860	-	(20,120)
Provisions	-	-	-	-
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post employment benefit obligation	8,078	4,202	-	12,280
Total deferred tax assets/ (liabilities)	**(13,902)**	**6,062**	**-**	**(7,840)**

Deferred income tax assets/ (liabilities):	**" At 30 June 2017 "** **Birr'000**	**Credit/ (charge) to P/L** **Birr'000**	**Credit/ (charge) to equity** **Birr'000**	**" 30 June 2018 "** **Birr'000**
Property, plant and equipment	(22,756)	776	-	(21,980)
Provisions	-	-	-	-
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post employment benefit obligation	5,486	2,592	-	8,078
Total deferred tax assets/(liabilities)	**(17,270)**	**3,368**	**-**	**(13,902)**

		30 June 2019 Birr'000	30 June 2018 Birr'000
16	**Cash and cash equivalents**		
	Cash in hand	1,503,709	1,887,786
	Balance held with National Bank of Ethiopia	1,823,781	1,844,840
	Deposits with local banks	502,237	789,022
	Deposits with foreign banks	1,291,200	1,287,479
	Total	**5,120,927**	**5,809,127**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	3,750,927	4,809,127
Non-Current	1,370,000	1,000,000
Total	**5,120,927**	**5,809,127**

Cash and cash equivalents in the statement of cash flows are the same as on the statement of financial position as the Bank had no bank overdrafts at the end of each reporting period.

		30 June 2019 Birr'000	30 June 2018 Birr'000
17	**Loans and advances to customers**		
	Agriculture	226,738	206,345
	Industry	1,486,938	1,051,846
	Domestic trade and services	4,681,099	2,907,290
	Export	3,860,093	2,687,653
	Import	1,060,543	595,749
	Construction	1,858,505	1,016,354
	Transport and communication	250,135	264,832
	Hotel and tourism	957,211	681,631
	Mining, power and water resources	-	-
	Microfinance institution	42,535	42,514
	Mortgage loan staff	588,619	352,801
	Mortgage Loan Customer	333,748	70,415
	Personal Loan Staff	87,061	59,873
	Emergency staff loans	123,533	103,319
	Consumer loans	39,332	19,867
		-	-
	Gross amount	**15,596,090**	**10,060,489**
	Less: Impairment allowance (note 15a)	-	
	- Specific impairment	-	(24,885)
	- Collective impairment	-	(67,031)

- Stage 1 12 month ECL	(127,455)	-
- Stage 2 Life time ECL	(11,819)	-
- Stage 3 Life time ECL	(132,982)	-
Total Loss allowance	**(272,257)**	**(91,916)**
Total carrying amount	**15,323,833**	**9,968,573**

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	10,420,207	6,736,302
Non-Current	4,903,627	3,232,271
Total	**15,323,833**	**9,968,573**

17(a) Impairment allowance on loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and receivables as at 01 July 2018 is as follows:

	30 June 2018	**Stage 1 12 month ECL**	**Stage 2 Life time ECL**	**Stage 3 Life time ECL**	**Day 1 change in ECL allowance**
Specific allowance for impairment	24,885	-	-	-	(24,885)
Collective allowance for impairment	67,031	-	-	-	(67,031)
Stage 1 12 month ECL	-	60,285	-	-	60,285
Stage 2 Life time ECL	-	-	5,023	-	5,023
Stage 3 Life time ECL	-	-	-	63,803	63,803
Total	**91,917**	**60,285**	**5,023**	**63,803**	**37,194**

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

	As at 01 July 2018	**Charge for the year**	**As at 30 June 2019**
Stage 1 12 month ECL	60,285	67,170	127,455
Stage 2 Life time ECL	5,023	6,797	11,819
Stage 3 Life time ECL	63,803	69,179	132,982
Total	**129,111**	**143,146**	**272,257**

A reconciliation of the allowance for impairment losses for loans and receivables by class as at 30 June 2018 is as follows:

Specific allowance for impairment	**As at 30 June 2017 Birr'000**	**Charge for the year Birr'000**	**As at 30 June 2018 Birr'000**
Transport and communication	59	(59)	-
Housing and construction loans	749	(160)	590

Hotel and tourism loans	30,416	(29,707)	710
Export loans	12,659	4,466	17,125
Domestic trade loans	7,282	(5,145)	2,137
Mortgage	494	(494)	-
Staff loans	337	(337)	-
Industry	853	1,986	2,839
Import	1,660	(1,660)	-
Agriculture	-	1,485	1,485
Total	**54,509**	**(29,624)**	**24,885**

Collective allowance for impairment	**As at 30 June 2017** **Birr'000**	**Charge for the year** **Birr'000**	**As at 30 June 2018** **Birr'000**
Agriculture	7,097	(4,235)	2,863
Industry	2,748	789	3,537
Domestic Trade & Service	35,864	(14,217)	21,647
Export	45,198	(24,948)	20,251
Import	5,158	(1,022)	4,136
Construction	13,512	(6,199)	7,314
Transport and Communication	3,917	(762)	3,154
Hotel and Toursim	6,923	(3,392)	3,532
Microfinance	-	-	-
Mines, Power,and Water	-	-	-
Mortgage Loan Customer	80	(44)	36
Mortgage Loan Staff	157	197	354
Personal and Consumer - Customer	22	48	70
Personal and Consumer - Staff	53	(22)	31
Emergency Staff Loan	125	(15)	110
Total	**120,855**	**(53,823)**	**67,031**

18 Interest Free Financing	**30 June 2019** **Birr'000**	**30 June 2018** **Birr'000**
Murahabah Financing- Agriculture	100,505	87,399
Murahabah Financing- Construction	251,261	122,620
Murahabah Financing- Agriculture Merchandize	-	-
Murahabah Financing- Industry	330,038	185,195
Murahabah Financing- DTS	648,393	408,963
Murahabah Financing- Export	-	-
Interest Free Export Facility Financing	208,425	481,990
Murahabah Financing- Import	158,561	169,402
Murahabah financing	-	-

Murahabah Financing- Hotel and Tourism	18,177	11,796
Murahabah Financing- Transport and Communication	107,117	118,309
Muruhabah Financing- Consumer and Personal	-	-
	-	-
Gross amount	**1,822,477**	**1,585,674**
Profit receivable from Murubaha Financing	399,065	262,420
Less: Deferred profit	(277,377)	(185,291)
Less: Impairment allowance (note 15a)		
- Specific impairment	-	(30,944)
- Collective impairment	-	(10,566)
- Stage 1 12 month ECL	(7,930)	
- Stage 2 Life time ECL	(7,165)	
- Stage 3 Life time ECL	(38,331)	
Total Loss allowance	**(53,427)**	**(41,509)**
Total carrying amount	**1,890,738**	**1,621,293**

Maturity analysis	**30 June 2019**	**30 June 2018**
	Birr'000	**Birr'000**
Current	1,247,887	1,206,889
Non-Current	642,851	414,404
Total	**1,890,738**	**1,621,293**

18(a) Impairment allowance on Interest Free Financing

A reconciliation of the allowance for impairment losses for Interest free financing as at 01 July 2018 is as follows:

	30 June 2018	**Stage 1 12 month ECL**	**Stage 2 Life time ECL**	**Stage 3 Life time ECL**	**Day 1 change in impairment allowance**
Specific allowance for impairment	30,944	-	-	-	(30,944)
Collective allowance for impairment	10,566	-	-	-	(10,566)
Stage 1 12 month ECL	-	9,005	-	-	9,005
Stage 2 Life time ECL	-	-	2,291	-	2,291
Stage 3 Life time ECL	-	-	-	32,356	32,356
Total	**41,509**	**9,005**	**2,291**	**32,356**	**2,142**

A reconciliation of the allowance for impairment losses for Interest free financing as at 30 June 2019 is as follows:

	As at 01 July 2018	Charge for the year	As at 30 June 2019
Stage 1 12 month ECL	9,005	(1,075)	7,930
Stage 2 Life time ECL	2,291	4,875	7,165
Stage 3 Life time ECL	32,356	5,975	38,331
Total	**43,651**	**9,775**	**53,427**

A reconciliation of the allowance for impairment losses for interest free financing as at 30 june 2018 by class is as follows:

Specific allowance for impairment	**As at 30 June 2017** **Birr'000**	**Charge for the year** **Birr'000**	**As at 30 June 2018** **Birr'000**
Murahabah Financing- Export	21,627	2,408	24,035
Murahabah Financing- Import	-	6,909	6,909
Total	**21,627**	**9,317.08**	**30,944**

Collective allowance for impairment	**As at 30 June 2017** **Birr'000**	**Charge for the year** **Birr'000**	**As at 30 June 2018** **Birr'000**
Murubaha Financing -Agriculture	1,120	(20)	1,100
Murubaha Financing- Industry	452	57	509
Murubaha Financing -DTS	3,407	(880)	2,527
Murubaha Financing -Export	8,427	(4,647)	3,779
Murubaha Financing- Import	1,022	(392)	630
Murubaha Financing - Construction	1,077	(404)	674
Murubaha Financing - Transport and Comm.	1,721	(428)	1,293
Murubaha Financing- Hotel and Toursim	156	(102)	54
Murubaha Financing -Personal	6	(6)	
Total	**17,388**	**(6,823)**	**10,566**

	30 June 2019 **Birr'000**	**30 June 2018** **Birr'000**
19 Investment securities		
Financial assets at fair value through OCI		
Financial assets at fair value through OCI (2018-AFS)	95,478	68,705

	95,478	**68,705**
Financial assets at amortized cost (2018-Loans and Receivables)		
NBE Bills	7,062,601	4,845,419
Ethiopian Government bonds	10,400	10,398
Gross amount	**7,073,001**	**4,855,817**
Less individual allowance for impairment	-	-
Carrying amount	**7,073,001**	**4,855,817**

The equity investments made by the Bank is as summarised below:

The 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.

	As at 30 June 2019			
Investment	**Number of shares '000**	**Net changes in equity investments at FVOCI**	**Balance of FVOCI**	**Percentage shareholding (at FV)**
Oromia Insurance S.C	12,500	5,179	17,679	18.5%
Gutu Oromia Business S.C	3,250	-	3,250	3.4%
Elemtu Integrated Dairy Industry S.C	10,000	(10,000)	-	0.0%
Elemo Kiltu House Buliding	500	268	768	0.8%
OIB ODA Real Estate PLC	10,000	(4,205)	5,795	6.1%
Ethio Switch S.C	12,002	14,800	26,802	28.1%
TPO Printing and Publishing S.C	15,000	-	15,000	15.7%
Tsehay Industry S.C	15,526	7,565	23,091	24.2%
Sheger Micro Finance	3,200	(107)	3,093	3.2%
Grand Total	**81,978**	**13,500**	**95,478**	**100%**

	As at 30 June 2018	As at 01 July 2018		
Investment	**Number of shares '000**	**FV day 1 adjustment gain/(loss)**	**Balance of FVOCI**	**Percentage shareholding (at FV)**
Oromia Insurance S.C	12,500	7,269	19,769	22.0%
Gutu Oromia Business S.C	3,250	-	3,250	3.6%
Elemtu Integrated Dairy Industry S.C	10,000	(10,000)	-	0.0%
Elemo Kiltu House Buliding	500	47	547	0.6%

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

OIB ODA Real Estate PLC	10,000	(3,413)	6,587	7.3%
Ethio Switch S.C	11,370	(2,118)	9,252	10.3%
TPO Printing and Publishing S.C	7,500	-	7,500	8.3%
Tsehay Industry S.C	12,572	29,361	41,933	46.7%
Sheger Micro Finance	1,013	-	1,013	1.1%
Grand Total	**68,705**	**21,147**	**89,852**	**100%**

Investment	Balance of FVOCI 01 July 2018	Balance of FVOCI 30 June 2019	Net changes in equity investments during the year
Oromia Insurance S.C	19,769	17,679	(2,090)
Gutu Oromia Business S.C	3,250	3,250	-
Elemtu Integrated Dairy Industry S.C	-	-	-
Elemo Kiltu House Buliding	547	768	221
OIB ODA Real Estate PLC	6,587	5,795	(792)
Ethio Switch S.C	9,252	26,802	17,549
TPO Printing and Publishing S.C	7,500	15,000	7,500
Tsehay Industry S.C	41,933	23,091	(18,842)
Sheger Micro Finance	1,013	3,093	2,080
Grand Total	**89,852**	**95,478**	**5,626**

Additional investment during the year

Investment	30 June 2018	Addition for the year	30 June 2019
Oromia Insurance S.C	12,500	-	12,500
Gutu Oromia Business S.C	3,250	-	3,250
Elemtu Integrated Dairy Industry S.C	10,000	-	10,000
Elemo Kiltu House Buliding	500	-	500
OIB ODA Real Estate PLC	10,000	-	10,000
Ethio Switch S.C	11,370	632	12,002
TPO Printing and Publishing S.C	7,500	7,500	15,000
Tsehay Industry S.C	12,572	2,954	15,526
Sheger Micro Finance	1,013	2,187	3,200
Grand Total	**68,705**	**13,273**	**81,978**

	As at 30 June 2018	
Investment	**Number of shares '000**	**Percentage shareholding**
Oromia Insurance S.C	12,500	18.2%
Gutu Oromia Business S.C	3,250	4.7%
Elemtu Integrated Dairy Industry S.C	10,000	14.6%
Elemo Kiltu House Buliding	500	0.7%
OIB ODA Real Estate PLC	10,000	14.6%
Ethio Switch S.C	11,370	16.5%
TPO Printing and Publishing S.C	7,500	10.9%
Tsehay Industry S.C	12,572	18.3%
Sheger Micro Finance	1,013	1.5%
Grand Total	**68,705**	**100%**

Maturity analysis	30 June 2019	30 June 2018
	Birr'000	Birr'000
Current	837,369	392,628
Non-Current	6,235,632	4,463,189
Total	**7,073,001**	**4,855,817**

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

		30 June 2019	30 June 2018
		Birr'000	Birr'000
20	**Other assets**		
	Financial assets		
	Accounts receivables	(1,198)	508
	Uncleared effects- Local	57,806	43,465
	Uncleared effects-Foreign	70,484	60,427
	Accrued interest receivable on Government Bonds	-	-
	Accrued interest receivable on NBE Bills	-	-
	Accrued receivables-Share companies	-	-
	Miscellaneous	97,429	66,577
	Guarantee for Overseas Employment Agencies	619,653	65,549
	Gross amount	**844,174**	**236,526**
	Less: Specific impairment allowance (note 17a)	-	(18,235)
	ECL for other financial asset	(6,637)	-
	Carrying amount	**837,537**	**218,291**
	Non-financial assets		
	Prepayments	443,305	437,750
	Prepaid staff asset	156,751	92,697
	Prepaid staff loans	-	-
	Branches under opening	8,771	30,947
	Inventory	20,382	11,790
	Total	**629,209**	**573,184**
	Gross amount	**1,466,746**	**791,474**
	Maturity analysis	**30 June 2019**	**30 June 2018**
		Birr'000	**Birr'000**
	Current	1,020,769	372,013
	Non-Current	445,977	419,462
	Total	**1,466,746**	**791,474**

20(a) Impairment allowance on other assets

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Balance at the beginning of the year	18,235	6,858
(Reversal)/charge for the year (note 10)	(18,235)	11,377
Balance at the end of the year	**-**	**18,235**

20(b) Inventory

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Fixed asset in store	-	-
Supplies stock account- IFB	-	-
Supplies stock account	20,382	11,790
	20,382	**11,790**

		Swift Software Birr'000	Core Banking Software Birr'000	Mobile and agent banking software Birr'000	Total Birr'000
20	**Intangible Assets**				
	Cost:				
	As at 30 June 2018	**-**	**40,703**	**-**	**40,703**
	Acquisitions		1,002		1,002
	Internal development				-
	Transfer from property, plant and equipment				-
	As at 30 June 2019	**-**	**41,704**	**-**	**41,704**
	Accumulated Amortisation and Impairment Losses				
	As at 30 June 2018	**-**	**33,739**	**-**	**33,739**
	Amortisation for the year		4,409		4,409
	Impairment losses				-
	As at 30 June 2019	**-**	**38,148**	**-**	**38,148**

20 Intangible Assets (Contd)

Net book value			
As at 30 June 2018	6,964		6,964
As at 30 June 2019	3,556	-	3,556

	Property, plant and equipment	Buildings	Motor vehicles	Furniture and fittings	Computer and accessories	Office equipment	Construction in progress	Total
		Birr'000	Birr'000	Birr'000	Birr'000			Birr'000
21	**Cost:**							
	As at 30 June 2018	**334,027**	**188,268**	**94,348**	**138,485**	**98,328**	**3,031**	**856,487**
	Additions	101,228	301	18,247	61,761	17,629		199,166
	Disposals	-	-	-	-			-
	Reclassification	-	-	-	-			-
	As at 30 June 2019	**435,255**	**188,569**	**112,595**	**200,246**	**115,957**	**3,140**	**1,055,762**
	Accumulated depreciation							
	As at 1 July 2018	**18,401**	**73,530**	**28,589**	**51,001**	**42,375**	**-**	**213,896**
	Charge for the year	7,990	17,515	9,361	20,119	13,817	-	68,802
	Impairement	-	-	-	-	-		-
	Disposals	-	-	417	475	127	-	1,019
	As at 30 June 2019	**26,391**	**91,045**	**38,367**	**71,595**	**56,319**	**-**	**281,678**
	Net book value							
	As at 01 July 2018	315,627	114,738	65,759	87,484	55,953	3,031	642,591
	As at 30 June 2019	408,864	97,524	74,228	128,651	59,638	3,140	774,084

		30 June 2019	30 June 2018
		Birr'000	Birr'000
22	**Non-current assets held for sale**		
	Balance at the beginning of the year	32,185	27,813
	Additional Repossessed collateral from the borrower for the year	-	6,860
	Transfer to property, plant and equipment	-	(507)
	Transfer from property, plant and equipment	-	-
	Disposals of Repossessed collateral	(1,067)	(141)
	Disposals of property, plant and equipment	(176)	(1,839)
	Fair value gain/(loss) on assets held for sale	-	-
	Balance at the end of the year	**30,942**	**32,185**

Oromia International Bank S.C. took over collateral of some customers and these were recorded in the books as Assets classified as held for sale as the Bank had no intention to make use of the property for administrative use. Management initiated a plan to dispose of these assets to willing buyers and expects to have completed the transaction before the end of the next financial period.

These assets have been valued by in-house engineers responsible for collateral valuation using the market approach determined using Level 3 inputs.

There is no cumulative income or expenses in OCI relating to assets held for sale.

		30 June 2019	30 June 2018
		Birr'000	Birr'000
23	**Deposits from customers**		
	Demand deposits	7,223,812	6,080,985
	Saving deposits	12,830,259	9,474,568
	Fixed Time deposits	2,380,112	1,358,185
	Foreign Currency Accounts	-	-
	Gross amount	**22,434,183**	**16,913,738**
	Maturity analysis	**30 June 2019**	**30 June 2018**
		Birr'000	**Birr'000**
	Current	21,985,499	16,575,463
	Non-Current	448,684	338,275
		22,434,183	**16,913,738**

		30 June 2019	30 June 2018
		Birr'000	Birr'000
25	**Other liabilities**		
	Financial liabilities		
	TT payable	10,647	11,862
	CPO & Certified Cheques issued	237,678	234,787
	Account Payable Miscellaneous	27,376	17,574
	Income tax payable	5,575	4,316
	Tax payable on interest	7,176	4,984
	Pension payable	3,037	2,238
	Tax on capital gain	94	107
	VAT payable	51	137
	Withholding tax payable	1,308	1,136
	Stamp duty charges	3,416	1,313
	Exchange payable to NBE	8,950	8,030
	Accrued Interest On Fixed Time Deposit	-	-

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

Audit fee	413	328
Dividend Payable	36,601	49,531
Letter of credit margin payables	642,689	523,770
Hamish Jiddya Payable	8,722	6,274
Charity Fund Payable	6,992	2,727
Uncleared effects- Foreign	-	-
Uncleared effects-Local	-	-
Deferred Murabaha profit		
Cost Sharing Payable	27	53
Legal provisions	-	-
Directors Share on Profit	1,511	894
	1,002,263	**870,061**
Non-financial liabilities		
Other provisions	-	-
Accrued leave payable	55,547	41,771
Deferred Income-rent	4,643	4,393
Unearned income	30,667	32,456
Bonus provision	74,402	78,105
	165,259	**156,725**
Gross amount	**1,167,522**	**1,026,786**

25 Other liabilities (confirmed)

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	1,167,522	1,026,786
Non-Current	-	-
	1,167,522	**1,026,786**

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
Retirement benefit obligations		
Defined benefits liabilities:		
– Severance pay	40,934	26,925
Liability in the statement of financial position	**40,934**	**26,925**
Income statement charge included in personnel expenses:		
– Severance pay	7,058	5,858

– Long service awards		
Total defined benefit expenses	**7,058**	**5,858**
Remeasurements for:		
– Severance pay	6,951	2,779
	6,951	**2,779**

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

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	7,058	5,858
Non-Current	33,876	21,067
	40,934	26,925

Severance pay

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

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

24	**Retirement benefit obligations (continued)**		
		30 June 2019 Birr'000	**30 June 2018 Birr'000**
A	**Liability recognised in the financial position**	**14,009**	**8,637**
B	**Amount recognised in the profit or loss**	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
	Current service cost	4,214	3,195
	Interest cost	3,776	3,017
		7,990	**6,212**
C	**Amount recognised in other comprehensive income:**		
	Remeasurement (gains)/losses arising from changes in demographic assumptions	-	-
	Remeasurement (gains)/losses arising from changes in the economic assumptions	2,633	2,949
	Remeasurement (gains)/losses arising from experience	4,318	(170)

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

Tax credit /(charge)		
	6,951	2,779

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
At the beginning of the year	26,925	18,288
Current service cost	4,214	3,195
Interest cost	3,776	3,017
Remeasurement (gains)/ losses	6,951	2,779
Benefits paid	(932)	(354)
At the end of the year	40,934	26,925

The significant actuarial assumptions were as follows:

i) **Financial Assumption Long term Average**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Discount Rate (p.a)	11.25%	12.31%
Long term Salary Increases(p.a)	12.00%	12.00%
Inflation Rate	10.00%	10.00%
Net pre-retirement rate	-0.67%	0.28%

		30 June 2019 Birr'000	30 June 2018 Birr'000
27	**Ordinary share capital**		
	Authorised:		
	Ordinary shares of Birr 1000 each	3,000,000	3,000,000
	Issued and fully paid:		
	Ordinary shares of Birr 1000 each	2,385,981	1,606,949

28 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit after tax	745,853	727,705
Weighted average number of ordinary shares in issue	1,996,465	1 ,387,385
Basic & diluted earnings per share (Birr)	0.374	0.525

28 Earnings per share (Contd)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2019:nil and 30 June 2018: nil), hence the basic and diluted loss per share have the same value.

		30 June 2019 Birr'000	30 June 2018 Birr'000
29	**Retained earnings**		
	At the beginning of the year	383,710	173,760
	Profit/ (Loss) for the year	745,853	727,705
	Prior year (over)/ under provision	-	1,391
	Reversal of loans and IFB financing loss allowance recoginzed as per IAS 39	133,426	-
	Day one IFRS 9 transition adjustment for loans and IFB financing	(172,762)	-
	Reversal of other assets loss allowance recoginzed as per IAS 39	18,017	-
	Day one IFRS 9 transition adjustment for other assets	(3,756)	-
	Directors share on Profit	(1,511)	(894)
	Transfer to legal reserve	(184,948)	(181,926)
	Dividends paid	(54,276)	(39,443)
	Dividends held in payable account	(18,737)	(27,370)
	Dividend capitalised	(310,698)	(147,971)
	Transfer to regulatory risk reserve	(41,351)	(121,540)
	Transfer from regulatory risk reserve - Suspended interest	14,586	-
	Transfer to regulatory risk reserve- Provission other Assets	(16,008)	
	Transfer from regulatory risk reserve for excess NBE provissions no longer required on application of IFRS 9	121,540	-
		-	-
	At the end of the year	613,086	383,710

		30 June 2019 Birr'000	30 June 2018 Birr'000
30	**Legal reserve**		

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.

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

	30 June 2019 Birr'000	30 June 2018 Birr'000
At the beginning of the year	457,285	275,359
Transfer from profit or loss	184,948	181,926
At the end of the year	642,233	457,285

		30 June 2019 Birr'000	30 June 2018 Birr'000
31	**Regulatory risk reserve**		
	At the beginning of the year	145,605	33,835
	Transfer to retained earnings for excess NBE provissions no longer required on application of IFRS 9	(121,540)	121,540
	Transfer from retained earnings- write backed suspended Interest	41,351	-
	Transfer to retained earnings	(14,586)	-
	Transfer from retained earnings- Provission for Other Assets	16,008	
	Adjustment of Regulatory risk reserve against loan account	-	(9,770)
	At the end of the year	**66,838**	**145,605**

31 Regulatory risk reserve (Contd)

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia(NBE) to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the expected credit loss model.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the expected credit loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using expected credit loss model under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

		Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
32	**Cash generated from operating activities**			
	Profit before tax		1,001,346	938,042
	Adjustments for non-cash items:			
	Depreciation of property, plant and equipment	21	68,802	53,866

Amortisation of intangible assets	20	4,409	13,132
Gain/(Loss) on disposal of property, plant and equipment	21		
Impairment on loans and advances	17	180,340	(83,448)
Impairment on interest free financing	16	11,917	2,494
Impairment losses on other assets	20	(11,598)	11,378
Retirement benefit obligations	26	(6,951)	(2,779)
Adjustment on De-Recognised Property, Plant and equipment		1,129	-
Adjustment of Property, Plant and equipment		-	-
Fair Value adjustment for equity investment	18	(13,500)	-
Adjustment of Provision for Legal			
Prior Period Adjustment			(9,770)
Changes in working capital:			
-Decrease/ (Increase) in loans and advances to customers	17	(5,535,601)	(2,839,955)
-Decrease/ (Increase) in interest free financing	18	(281,362)	(565,376)
-Decrease/ (Increase) in other assets	20	(663,674)	(146,913)
-Decrease/ (Increase) in non current assets held for sale	20	1,243	(4,372)
-Increase/ (Decrease) in deposits from customers	23	5,520,445	5,482,191
-Increase/ (Decrease) in Interest Free customers' deposits	24	1,141,666	983,195
-Increase/ (Decrease) in Other liabilities	22	121,999	1,945
-Increase/ (Decrease) in Retirement benefit obligations	24	14,009	8,637
-Decrease/ (Increase) in Restricted Deposit	15	(370,000)	(320,000)
		1,184,620	**3,522,268**

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Proceeds on disposal	-	-
Net book value of property, plant and equipment disposed (Note 19)	-	-
Gain/(loss) on sale of property, plant and equipment	-	-

33 Related party transactions

Oromia International Bank S.C. is a wholly owned private financial institution. A number of transactions were entered into with related parties in the normal course of business. These are disclosed below:

31a Transactions with related parties

	30 June 2019 Birr'000	30 June 2018 Birr'000
Deposits	152,035	10,684
Loans	17,358	16,440
Total	**169,393**	**27,124**

31b Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2019

	30 June 2019 Birr'000	30 June 2018 Birr'000
Basic Salary (short term employee benefit)	5,802	5,608
Representation Allowance (short term employee benefit)	330	342
Provident fund (short term employee benefit)	804	722
Bonus (short term employee benefit)	707	1,418
Directors Allowance	1,008	607
Directors' Share on profit	1,511	894
Total	**10,162**	**9,590**

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

32 Contingent liabilities

32a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2019 is Birr 59,246,553 . No provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

32b 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:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Guarantees Issued and Outstanding	1,321,037	812,261
Commitments on Letter of Credit net of Margin Paid	455,292	361,294
Commitments on Letter of Credit net of Urbun Held	39,800	105,350
TCG Issued and Outstanding	44,171	43,055
"Loan Approved but not Disbursed and		
IFB Financing approved but not yet Financed"	1,618,896	841,079
Unutilized Overdraft and Other Facility	1,478,840	1,129,592
Undrawn IFB Export Facility Financing	944,539	678,260
Total	**5,902,575**	**3,970,891**

33 Commitments

	30 June 2019 Birr'000	30 June 2018 Birr'000
Share Subscribed but not paid	-	9,615
Capital projects	68,943	67,080
Total	**68,943**	**76,695**

34 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 the each lease period at market rate.

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
No later than 1 year	14,802	15,821
Later than 1 year and no later than 2 years	32,355	155,027
Later than 2 years but not later than 5 years	139,000	54,509
Total	**186,157**	**225,358**

35 Events after reporting period

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

37 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments . Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker is the person or Bank that allocates resources to and assesses the performance of the operating segments of an entity.

The Bank has determined the Board of Directors as its chief operating decision maker. All transactions between business segments are conducted on commercial terms basis with intra-segment revenue and costs being eliminated at Bank level.

Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance.

Information reported to the Bank's Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on products and services.

The accounting policies of the reportable segments are the same as the Bank's accounting policies described in note 2.

For management purposes, the Bank has been organised into two operating segments based on products and services, as follows:

1. Interest Free Banking- All Islamic banking products offered to customers are included under the Islamic Banking segment. These products include Wadiah deposits, Amanah deposits and mudarabah investments.
2. Conventional Banking- The conventional banking segment comprises of corporate and commercial banking customers in various sectors which include agriculture, manufacturing, domestic trade, construction, hotel and tourism, microfinance institutions, mortgage loans and personal loans

37 Segment reporting (continued)

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are based on the Bank's internal pricing framework.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

Profit segments

At 30 June 2019

	Conventional Banking Birr "000	Interest Free Banking Birr "000	Segment adjustments Birr "000	Bank Birr "000
Interest income	2,218,072	-	-	2,218,072
Income from Interest free financing and investment products	-	181,386	-	181,386
Interest expense	836,803			836,803
Distribution to depositors- Interest Free Banking Products		13		13
Net interest income and income from Interest Free Banking products net of distribution to depositors	**1,381,269**	**181,373**	**-**	**1,562,642**
Fee and commission income	591,682	62,522	-	654,204
Fee and commission expense	-	-	-	-
Net fees and commission income	591,682	62,522	-	654,204
Other operating income	177,460	181	-	177,641
Loan impairment charge	143,146	9,775	-	152,921
Impairment losses on other assets	2,881	-	-	2,881
Inter–segment revenues/expenses				
Net operating income	31,433	(9,594)	-	21,839
Amortisation of intangible assets	4,409	-	-	4,409
Depreciation of property and equipment	68,802	-	-	68,802
Personal and Other operating expenses	1,146,621	17,507		1,164,128
Segment Profit before tax	**784,552**	**216,794**		**1,001,346**
Income tax expense	190,455	65,038		255,493
Segment profit after tax	**594,097**	**151,756**		**745,853**
Assets				
"Additions to property and equipment"	199,166	-		199,166
"Additions to other intangible assets"	1,002	-		1,002
Total assets	**27,335,836**	**4,443,472**		**31,779,308**
Total liabilities	**23,842,837**	**4,223,890**		**28,066,727**

37 Segment reporting (continued)

At 30 June 2018

	Conventional Banking Birr "000	Interest Free Banking Birr "000	Segment adjustments Birr "000	Bank Birr "000
Interest income	1,505,568	-	-	1,505,568
Income from Interest free financing and investment products	-	136,825	-	136,825
Interest expense	543,432	-	-	543,432
Distribution to depositors- Interest Free Banking Products	-	166	-	166
Net interest income and income from Interest Free Banking products net of distribution to depositors	**962,136**	**136,659**	**-**	**1,098,795**
Fee and commission income	421,539	84,012	-	505,551
Fee and commission expense	-	-	-	-
Net fees and commission income	421,539	84,012	-	505,551
Other operating income	318,246	2,217	-	320,463
Loan impairment charge	8,971	9,374	-	18,345
Impairment losses on other assets	7,729	3,649	-	11,378
Inter–segment revenues/expenses	-	-	-	-
	-	-	-	-
Net operating income	301,547	(10,807)	-	290,740
Amortisation of intangible assets	13,132	-	-	13,132
Depreciation of property and equipment	53,866	-	-	53,866
Personal and Other operating expenses	874,845	15,201	-	890,046
	-	-	-	-
Segment Profit before tax	**743,379**	**194,663**	**-**	**938,042**
	-	-	-	-
Income tax expense	151,938	58,399	-	210,337
Segment profit after tax	**591,440**	**136,264**	**-**	**727,705**
Assets				
Additions to property and				
equipment"	105,246	-	-	105,246
Additions to other				
intangible assets"	8,467	-	-	8,467
Total assets	**20,514,270**	**3,282,462**	**-**	**23,796,732**
Total liabilities	**18,047,097**	**3,158,667**	**-**	**21,205,764**

Oromia International Bank S.C.

Audited Financial statements

For the year ended '30 June 2019

Oromia International Bank S.C.
Directors, professional advisers and registered office
For the year ended 30 June 2019

Company registration number

KK/AA/3/0007345/2007

Directors (As of 30 June 2018)

Obbo Gadissa Bultosa	Chairman	Appointed April 05, 2018
Dr. Aynalem Megersa	Vice-Chairperson	Appointed April 05, 2018
Dr. Firdissa Jebessa	Member	Appointed April 05, 2018
Ambassador Aman Hassen	Member	Appointed April 05, 2018
Obbo Asegid Regassa	Member	Appointed April 05, 2018
Obbo Damenu Tulu	Member	Appointed April 05, 2018
Obbo Berhanu Debella	Member	Appointed April 05, 2018
Obbo Didha Dirriba	Member	Appointed April 05, 2018
Dr. Assefa Seme	Member	Appointed April 05, 2018
Obbo Ajema Gondel	Member	Appointed April 05, 2018
Obbo Mulugeta Tujuba	Member	Appointed April 05, 2018
Obbo Feyera Abdissa	Member	Appointed April 05, 2018

Executive management (As of 30 June 2018)

Obbo Abie Sano	President	Appointed 01 Feburary 2009
Obbo Mergia Diriba	Chief Operating Officer	Appointed 01 April 2010
Obbo Teferi Mekonnen	V/P Corporate Support	Appointed 21 June 2013
Obbo Geleta Bekuma	A/V/P Information Technology	Appointed 01 June 2018
Obbo Wolde Bulto	V/P Credit & International Banking	Appointed 23 April 2016
Obbo Alemayehu Demise	V/P Branch Banking	Appointed 24 March 2016
Obbo Berhanu Edea	Chief Internal audit	Appointed 21 April 2016
Obbo Ketema Mengesha	Chief Risk Management and Compliance	Appointed 20 February 2017

Independent auditor
TAY & Company
Chartered Certified Accountants & Authorised Auditors
Addis Ababa
Ethiopia

Corporate office
P.O.Box 27530/1000
Bole Road
Oromia International Bank Building
Addis Ababa
Ethiopia

Company secretary
Dagnachew Negash
P.O.Box 27530/1000
Bole Road
Oromia International Bank Building
Bole Road, Kirkos
Addis Ababa, Ethiopia

Oromia International Bank S.C.

Report of the directors

For the year ended 30 June 2019

The directors submit their report together with the financial statements for the year ended 30 June 2019, to the members of Oromia International Bank S.C. ("OIB or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation

Oromia International Bank share company has been established in Addis Ababa as per the Commercial Code of Ethiopia 1960, and it was licensed by the National Bank of Ethiopia in September 2008 with the objective to engage in banking service in accordance with the Banking Business Proclamation number 592/2008 . The Bank started operation in October 2008.

Principal activities

Oromia International Bank S.C (OIB) engages in full-fledged banking business as per Banking Business Proclamation of Ethiopia number 592/2008. Accordingly, it accepts deposits in the form of current (demand) deposits, saving deposits and fixed time deposits. To address the need of certain types of its customers some features are added on those deposit types such as diaspora deposit accounts. It also extends different types of credit products based on the need of its customers. Some of its credit products have terms ranging from short term to long term while others have revolving nature such as over draft and pre-shipment facilities. International trade facilitation through letter of credit and other means of payment is the other major business of the Bank. The Bank also undertakes both local and international money remittance services. Moreover, it has specialized services such as interest free banking services, card banking services, mobile banking and agent banking services.

Results and dividends

The Bank's results for the year ended 30 June 2019 are set out below. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income	2,218,072	1,505,568
Profit / (loss) before tax	1,001,346	938,042
Tax (charge) / credit	255,493	210,337
Profit / (loss) for the year	745,853	727,705
Other comprehensive income / (loss) net of taxes	6,549	(2,779)
Total comprehensive income / (loss) for the year	6,549	(2,779)

Directors

The directors who held office during the year and to the date of this report are set out on page 1.

Solomon Geda
Company Secretary
Addis Ababa, Ethiopia

Oromia International Bank S.C.
Statement of directors' responsibilities
For the year ended 30 June 2019

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

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

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

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

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

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

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

Signed on behalf of the Directors by:

Obbo Gadissa Bultosa
Chairman of Board of Directors

Obbo Abie Sano
President

Independent auditor's report
To the shareholders of Oromia International Bank S.C

Opinion

We have audited the financial statements of Oromia International Bank S.C, which comprise the statement of financial position as at 30 June 2019, and the related statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, the financial position of the Oromia International Bank S.C as at 30 June 2019 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Basis for Opinion

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

Key Audit Matters

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

During the financial year the bank has adopted several newly issued IFRS standards including IFRS 9 which had impact on comparative figures as well as opening balances of the previous year. Proper assessment and recognition of the impacts have been considered as key audit

Ethio-China Friendship Street, Wengelawit Tadesse Building, 1st Floor
Tel. (011) 442 1336, 442 0062, (011) 470 7092, (011) 470 7094 - Mob. (093) 001 4106, (091) 151 5038/39
Fax (011) 442 1338 - e-mail: info@tayauditing.com - www.tayauditing.com - P.O. Box 1335 - Addis Ababa, Ethiopia

matters for our audit during the year. We obtained management's working for the assessment of the impact and evaluated the reasonableness of key assumptions and accuracy of the workings.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

011 442 1336
091 151 5039
093 001 4106
1335
Addis Ababa, Ethiopia
TAY Authorized Accountants & Auditors

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr Tesfa Tadesse, MSc, FCCA.

TAY Authorized
Accountants & Auditors

Addis Ababa
12 November 2019

Oromia International Bank S.C.
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income from Loans and advances	6	2,218,072	1,505,568
Income from Interest free financing and investment products	7	181,386	136,825
Less:Interest expense	8	836,803	543,432
Less:Distribution to depositors- Interest Free Banking Products	9	13	166
Net interest income and income from Interest Free Banking products net of distribution to depositors		**1,562,642**	**1,098,795**
Fee and commission income	9	654,204	505,551
Less:Fee and commission expense	9	-	-
Net fees and commission income		654,204	505,551
Other operating income	10	177,641	320,463
Total operating income		**2,394,487**	**1,924,809**
Loan impairment charge	11	152,921	18,345
Impairment losses on other assets	12	2,881	11,378
Net operating income		**2,238,685**	**1,895,086**
Less:			
Personnel expenses	13	798,704	622,671
Amortisation of intangible assets	20	4,409	13,132
Depreciation and impairment of property, plant and equipment	21	68,802	53,866
Other operating expenses	14	365,424	267,375
Profit before tax		**1,001,346**	**938,042**
Less:Income tax expense	15	255,493	210,337
Profit after tax		745,853	727,705
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations	26	(6,951)	(2,779)
Net change in equity investment at FVOCI	19	13,500	-
Deferred tax (liability)/asset on remeasurement gain or loss	15		-
Total other comprehensive income for the period		**6,549**	**(2,779)**
Earnings per share of Ethiopian Birr 1000	28	374	52 5

The notes on pages 12 to 92 are an integral part of these financial statements.

Dividend Pay out 307

Oromia International Bank S.C.
Statement of financial position
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
ASSETS			
Cash and cash equivalents	16	5,120,927	5,809,127
Loans and advances to customers	17	15,323,833	9,968,573
Interest Free Financing	18	1,890,738	1,621,293
Investment securities:			
- Financial assets at fair value through OCI (2018-AFS)	19	95,478	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	19	7,073,001	4,855,817
Other assets	20	1,466,746	791,474
Intangible assets	20	3,556	6,964
Property, plant and equipment	21	774,084	642,591
Deferred tax assets	15	-	-
		31,748,364	23,764,544
Non-current assets held for sale	22	30,942	32,185
Total assets		**31,779,308**	**23,796,732**
LIABILITIES			
Deposits from customers	23	22,434,183	16,913,738
Interest Free customers' deposits	24	4,154,943	3,013,277
Current tax liabilities	15	261,305	210,658
Deferred tax liabilities	13	7,840	13,902
Other liabilities	25	1,167,522	1,026,786
Retirement benefit obligations	26	40,934	26,925
Total liabilities		**28,066,727**	**21,205,286**
EQUITY			
Share capital	27	2,385,981	1,606,949
Share premium		7,694	7,694
Retained earnings	29	613,086	383,710
Legal reserve	30	642,233	457,285
Regulatory risk reserve	31	66,838	145,605
Other Reserve	24	(3,248)	(9,797)
Total equity		**3,712,583**	**2,591,446**
Total equity and liabilities		**31,779,308**	**23,796,732**

The notes on pages 12 to 92 are an integral part of these financial statements.

The financial statements on pages 12 to 92 were approved and authorised for issue by the board of directors on 05 November 2019 and were signed on its behalf by:

Obbo Gadissa Bultosa
Chairman of Board of Directors

Obbo Abie Sano
President

Peoples' BANK!

Oromia International Bank S.C.
Statement of changes in equity
For the year ended 30 June 2019

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Legal reserve Birr'000	Other Reserve Birr'000	Regulatory risk reserve Birr'000	Total Birr'000
As at 1 July 2018		1,606,949	7,694	383,710	457,285	(9,797)	145,605	2,591,446
Profit for the year	29	-	-	745,853	-	-	-	745,853
Reversal of loans and IFB financing loss allowance recognized as per IAS 39	29	-	-	133,426	-	-	-	133,426
Day one IFRS 9 transition adjustment for loans and IFB financing	29	-	-	(172,762)	-	-	-	(172,762)
Reversal of other assets loss allowance recognized as per IAS 39	29	-	-	18,017	-	-	-	18,017
Day one IFRS 9 transition adjustment for other assets	29	-	-	(3,756)	-	-	-	(3,756)
Other comprehensive income:		-	-		-	-	-	-
Net change in equity investment at FVOCI	19	-	-	-	-	13,500	-	13,500
Re-measurement gains on defined benefit plans (net of tax)	26	-	-	-	-	(6,951)	-	(6,951)
Prior year (over)/ under provision	29	-	-	-	-	-	-	-
Directors' Share on Profit		-	-	(1,511)	-	-	-	(1,511)
Proceeds from issue of shares	29	468,334	-	-	-	-	-	468,334
Dividend capitalised	**29**	310,698	-	**(310,698)**	-	-	-	-
Transfer to legal reserve	**29**	-	-	**(184,948)**	184,948	-	-	-
Dividends paid	**29**	-	-	**(54,276)**	-	-	-	**(54,276)**
Dividend held in payable account	**29**		-	**(18,737)**	-	-	-	**(18,737)**
Transfer to regulatory risk reserve	**31**	-	-	-	-	-	-	-
Suspended Interest transferred to regulatory risk reserve account	**31**	-	-	**(41,351)**	-	-	**41,351**	-
Suspended Interest transferred to Retained earnings being collected in cash	**31**	-	-	**14,586**	-	-	**(14,586)**	-
Transfer to regulatory risk reserve for excess NBE Provission for other Assets				**(16,008)**			**16,008**	-
Transfer to retained earnings for excess NBE provissions for Loans and Advances no longer required on application of IFRS 9	**31**	-	-	**121,540**	-	-	**(121,540)**	-
Total Change in equity for the year		**779,032**	-	**229,376**	**184,948**	**6,549**	**(78,767)**	**1,121,137**
As at 30 June 2019		**2,385,981**	**7,694**	**613,086**	**642,233**	**(3,248)**	**66,838**	**3,712,583**

The notes on pages 12 to 92 are an integral part of these financial statements.

Oromia International Bank S.C.
Statement of cash flow
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash flows from operating activities			
Cash generated from operations	32	1,184,620	3,522,268
Interest received		-	-
Defined benefits paid		(581)	(354)
Income tax paid		(210,658)	(90,139)
Net cash (outflow)/inflow from operating activities		**973,382**	**3,431,775**
Cash flows from investing activities			
Purchase of investment securities	19	(2,243,957)	(1,399,070)
Purchase of intangible assets	20	(1,002)	(8,467)
Purchase of property, plant and equipment	21	(199,166)	(105,246)
Proceeds from sale of property, plant and equipment	32		-
Proceed on disposal of Asset held for sale	22		
Net cash (outflow)/inflow from investing activities		**(2,444,124)**	**(1,512,783)**
Cash flows from financing activities			
Proceeds from issues of shares	27	468,334	291,157
Dividend paid		(54,276)	(39,443)
Directors' Share on Profit		(1,511)	(894)
Net cash (outflow)/inflow from financing activities		**412,548**	**250,820**
Net increase/(decrease) in cash and cash equivalents		**(1,058,195)**	**2,169,812**
Cash and cash equivalents at the beginning of the year	16	4,809,127	2,639,314
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	**16**	**3,750,927**	**4,809,127**

The notes on pages 12 to 92 are an integral part of these financial statements.

1 General information

Oromia International Bank S.C. (" the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established on September 18,2008 in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank registered office is at:

P.O.Box 27530/1000
Bole Road
Oromia International Bank Building
Addis Ababa
Ethiopia

The Bank is principally engaged in the provision of diverse range of financial products and services to a wholesale, retail and small and medium 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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

- Assets held for sale – measured at fair value less cost of disposal, and
- The present value of the defined benefit obligation less the net total plan assets, plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.
- Financial assets at FVTOCI are measured at fair value

c) Functional and Presentation of Currency

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

d) Use of estimates and judgements

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

2.2.1 Going concern

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

2.2.2 Changes in accounting policies and disclosures

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the bank

(a) New standards, amendments and interpretations

(i) New standards, amendments and interpretations and effective adopted during the year

A number of new standards are also effective from 1 July 2018 but they do not have a material effect on the Banks's financial statements. Due to the transition method chosen by the bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

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 recognized by the bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in impairment losses recognized on financial assets;
- Additional disclosures related to IFRS 9; and
- Additional disclosures related to IFRS 15

Except for changes noted below, the bank has consistently applied the accounting policies to all periods presented in these financial statements

- IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

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

The Bank applied IFRS 15 on 1 July 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 July 2018 without restating comparative periods.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in note 2.5.

2.2.3 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 July 2018.

Financial assets	IAS 39 carrying amount 30 June 2018	Reclassification	Remeasurement	IFRS 9 carrying amount 1 July 2018
Cash and balances with central Banks	5,809,127	-	(196)	5,808,931
Loans and advances to banks	9,968,572	-	(37,194)	9,931,378
Interest Free Financing	1,621,293	-	2,142	1,623,435
Investment Securities: Availabel for sale	68,705	-	21,147	89,852
Investment Securities: Loans and receivables	4,855,817	-	243	4,856,060
Other financial assets at amortized cost	218,291	-	(14,658)	203,633
Total financial assets	22,541,805		(28,516)	22,513,289
Financial Liabilities				
Deposits from customers	16,913,738	-	-	16,913,738
Interest free customer deposit	3,013,277	-	-	3,013,277
Other financial liabilities (including ECL on loan commitments and gurantees)	867,612	-	42	867,654
Total financial liabilities	20,794,627	-	42	20,794,669

Financial assets and financial liablities

2.2.3 Classfication of financial assets and financial liablities on the date of initial application of IFRS 9 (continued)

The following table shows the original measurement catagories in accordance with IAS 39 and the new measurement catagories under IFRS 9 for the bank financial assets and financial liabilites as at 1 July 2018."

FINANCIAL ASSETS	Classification Under IAS 39	Classification Under IFRS 9	Original carrying Amount	New Carrying Amount
Cash and balances with central Banks	Loans & Receivables	Amortised Cost	5,809,127	5,808,931
Loans and advances to banks	Loans & Receivables	Amortised Cost	9,968,572	9,929,045
Interest Free Financing	Loans & Receivables	Amortised Cost	1,621,293	1,621,436
Investment Securities: Availabel for sale	Availabel for sale	FVOCI	68,705	89,852
Investment Securities: Loans and receivables	Loans & Receivables	Amortised Cost	4,855,817	4,855,574
Other financial assets at amortized cost	Loans & Receivables	Amortised Cost	218,291	233,261
Total financial assets			22,541,805	22,538,099
Liabilities				
Deposits from customers	Amortised Cost	Amortised Cost	16,913,738	16,913,738
Interest free customer deposit	Amortised Cost	Amortised Cost	3,013,277	303,277
Other financial liabilities (including ECL on loan commitments and gurantees)	Amortised Cost	Amortised Cost	867,612	881,125
Total financial liabilities			20,794,627	18,098,140

TThe Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2.5(ii). The application of these policies resulted in the reclassifications set out in the table above and explained below.

- On the adoption of IFRS 9, certain financial assets such as cash and cash equivalents, loans and advances to customers – both interest bearing and interest free and treasury bills and bonds (NBE bills and government bonds) were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

- Further equity investment securities were reclassified out available-for-sale categories to FVOCI at their then fair values. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.
- On the adoption of IFRS 9, other financial assets such accounts receivables, uncleared effects – both local and foreign and guarantee for overseas employment agencies were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

a. New standards, amendements and interpretations

i) New standards, amendments and interpretations effective and adopted during the year

IFRS 9: Financial Instruments (2014)

2.2.4 Classification of financial assets and financial liabilites on the date of initial application of IFRS 9

The following table summarieses the impact of transition to IFRS 9 on the opening balance of the provission and retained earnings . There is no impact on other components of equity.

Fair Value Reserve	Impact of adopting IFRS 9 at 1 July 2018
Closing balance under IAS 39 (30 June 2018)	-
Reclassification of investment securities (equity) measured at cost from available-for-sale to FVOCI	21,147
Related tax	-
Adjusted opening balance under IFRS 9(1 July 2018)	21,147
Regulatory risk reserve (difference between IFRS and NBE provissions)	
Closing balance under IAS 39 (30 June 2018)	145,605
Transfer to retained earnings for excess NBE Provissions no longer required on intial application of IFRS 9	(39,336)
Related tax	-
Adjusted opening balance under IFRS 9 (1 July 2018)	106,269
Retained Earnings	
Closing balance under IAS 39 (30 June 2018)	383,710
Adjustment on initial application of IFRS 9	(25,075)
Transfer from regultory risk resrve on application of IFRS 9	39,336
Related tax	-
Adjusted opening balance under IFRS 9(1 July 2018)	397,971

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations issued but not adopted

The Bank does not plan to adopt these standards early. These are summarised below;

New Standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Prepayment Features with Negative Compensation	**01-July-2019**
IFRS 16 Leases	**01-July-2019**
IFRIC 23 Uncertainty over income tax treatments	**01-July-2019**
Annual improvements cycle (2015-2017)	**01-July-2019**
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	**01-July-2019**
Amendments to references to the Conceptual Framework in IFRS Standards	**01-July-2020**
Amendments to IAS 1 and IAS 8 Definition of Material	**01-July-2020**

When All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the bank). Of those standards that are not yet effective, IFRS 16, IAS 19, amendmentss to IAS 1 and IAS 8 and IFRIC 23 are expected to have a significant effect on the Bank'sfinancial statements in the period of initial application.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations."

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required 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 Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (rightof- use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments."

(a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows"

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations issued but not adopted

The Bank is still assessing the potential impact on the amounts and disclosures of the Bank's financial statements

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 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 periods beginning on or after 1 July 2019.

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

— 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; and

• 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.

• The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 July 2019, or the date on which the amendments are first applied. Earlier application is permitted.

• The Bank is asssessing the impact on the financial statements 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 July 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

Other Standards

The following amended standards are not expected to have a significant impact on the financial statements of the Bank.

• Annual improvement cycle (2015 – 2017) – various standards

• Amendments to References to the Conceptual Framework in IFRS Standard

2.3 Functional and presentation Currency

(a) Transactions and balances

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The functional currency and presentation currency of the Bank is the Ethiopian Birr (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 within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

Recognition of income and expense

(i) Interest income and expenses

Policy applicable after 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 Bank estimates future cash flows considering all contractual terms of the financial instrument, but not 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 impairment allowance before 1 July 2018).

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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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 creditimpaired, 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.

For information on when financial assets are credit-impaired, see Note 2.5

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;

• the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and

• the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

• Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases

• Interest expense presented in the statement of profit or loss and OCI includes:

• financial liabilities measured at amortised cost; and

• the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

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

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

Recognition of income and expenses (continued)

(ii) interest income and expense

Policy applicable before 1 July 2018

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

The Bank, earns income from interest on loans given for domestic trade and services, building and construction, manufacturing, agriculture and personal loans. Other incomes includes margins on letter of credits and performance guarantees.

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 contractual rates.

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 contractual rate 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 Bank 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."

The Bank's policy for recognition of income from Interest Free financing and investments products is described in Note 2.7 (iii).

2.4.1 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 (for example commission on drafts, cash payment order (CPO),letter of credit (LC), guarantee etc) are recognised on an accrual basis 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 relates mainly to transaction and service fees are expensed as the services are received.

2.4.2 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.

2.4.3 Foreign Exchange revaluation gains and losses

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

The monetary assets and liabilities include financial assets within the foreign currencies deposits received and held on behalf of third parties etc.

2.5 Financial assets and liabilities

(i) Recognition and intial measurement

Policy applicable from 1 July 2018

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.The requirements of IFRS 9 represent a significant change from IAS 39. The newstandard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has 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 Bank disclosed this amount in the notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.
The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 2.2.4

Financial assets and financial liabilities are recognised in the Banks's statement of financial position sheet when the Bank becomes a party to the contractual provisions of the instrument.
Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(ii) Classification and measurement of financial instruments Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.
- However, the Bank may make the following irrevocable election /designation at initial recognition of a financial asset on an asset- byasset basis:

(i) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

(ii) the Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

• the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

• how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)."

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative

gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 4.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (nonrecourse loans). The Bank applies judgment in assessing whether the nonrecourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

• whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;

• the fair value of the collateral relative to the amount of the secured financial asset;

• the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;

• whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;

• the Bank's risk of loss on the asset relative to a full-recourse loan;

• the extent to which the collateral represents all or a substantial portion of the borrower's assets; and

• whether the Bank will benefit from any upside from the underlying assets."

Financial assets at FVTPL

Financial assets at FVTPL are:

• assets with contractual cash flows that are not SPPI; or/and

• assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

• assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 6- Fair value of financial instruments.

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets

In line with IFRS 9, the Bank assesses the under listed financial instruments for impairment using Expected Credit Loss (ECL) approach:

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments and financial assets measured at FVTPL are not subjected to impairment under the standard.

Expected Credit Loss Impairment Model

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Bank adopts a three-stage approach for impairment assesment based on changes in credit quality since initial recognition.

- **Stage 1** – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- **Stage 2** – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- **Stage 3** – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life timeexpected credit loss), unless there has been no significant increase in credit risk since origination.

Measurement of Expected Credit Losses

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- **12-month PDs** – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. The Bank obtains the constant and relevant coefficients for the various independent variables and computes the outcome by incorporating forward looking macroeconomic variables and computing the forward probability of default.
- **Lifetime PDs** – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9. The Bank obtains 3 years forecast for the relevant macroeconomic variables and adopts exponentiation method to compute cumulative PD for future time periods

for each obligor.

• **EAD** – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

• **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

To estimate expected credit loss for off balance sheet exposures, credit conversion factor (CCF) is usually computed. CCF is a modelled assumption which represents the proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

It is a factor that converts an off balance sheet exposure to its credit exposure equivalent. In modelling CCF, the Bank considers its account monitoring and payment processing policies including its ability to prevent further drawings during periods of increased credit risk. CCF is applied on the off balance sheet exposures to determine the EAD and the ECL impairment model for financial assets is applied on the EAD to determine the ECL on the off balance sheet exposures.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires that:

The Bank uses internal subject matter consultant to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments in order to support the calculation of ECLs.

Macro-economic variables taken into consideration include, but are not limited to, inflation,Exchange rate, Gross Domestic Product,debt, stratification and requires an evaluation of both the current and forecast direction of the macroeconomic

cycle.

Macro-economic variables considered have strong statistical relationships with the risk parameters (LGD, EAD, CCF and PD) used in the estimation of the ECLs, and are capable of predicting future conditions that are not captured within the base ECL calculations.

Forward looking adjustments for both general macro-economic adjustments and more targeted at portfolio / industry levels. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Macroeconomic factors

The Bank relies on a broad range of forward looking information as economic inputs, such as: GDP growth, debt, household spending , consumer price index, inflation rates and foreign exchange rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

The macroeconomic variables and economic forecasts as well as other key inputs are reviewed and approved by management before incorporated in the ECL model. Any subsequent changes to the forward looking information are also approved before such are inputted in the ECL model.

The macro economic variables are obtained for 5 years in the future and are reassessed every 6 months to ensure that they reflect prevalent circumstances and are up to date.

Where there is a non-linear relationships, one forwardlooking scenario is never sufficient as it may result in the estimation of a worst-case scenario or a bestcase scenario. The Bank's ECL methodology considers weighted average of multiple economic scenarios for the risk parameters (basically the forecast macroeconomic variables) in arriving at impairment figure for a particular reporting period. The model is structured in a manner that the final outcome, which is a probability cannot be negative.

SICR is assessed once there is an objective indicator of a deterioration in credit risk of customer. In addition, the Bank as part of its routine credit processes perform an assessment on a quarterly basis to identify instances of SICR.

Multiple forward-looking scenarios

The Bank determines allowance for credit losses using three probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Bank prepares the scenarios using forecasts generated by credible sources such as Business Monitor International (BMI), International Monetary Fund (IMF), Ministry of Finance (MF), World Bank (WB), Ethiopian Central statistical Agency (ECSA), and United nation conference on trade and development (UNCTAD)

The Bank estimates three scenarios for each risk parameter (LGD, EAD, CCF and PD) – Base, Upside and Downside, which in turn is used in the estimation of the multiple scenario ECLs. The ' Base case' represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region.

The Bank adopts a multi factor approach in assessing changes in credit risk. This approach considers: Quantitative (primary), Qualitative (secondary) and Back stop indicators which are critical in allocating financial assets into stages.

The quantitative models considers deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors considers information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc.

A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 90 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

Definition of Default and Credit Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is '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; Others include death, insolvency, breach of
* covenants, etc.
* A breach of contract such as a default or past due event;
* The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
* 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.
* The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. "

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

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

• Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

• A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a creditimpaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Bank considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation."

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Banks's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Bank performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer creditimpaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

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 debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.
* for loan commitments and financial guarantee contracts: as a provision; and
* where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision."
* "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; and
* the remaining amount of change in the fair value is presented in profit or loss

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see below:

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals."

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

• it has been incurred principally for the purpose of repurchasing it in the near term; or
• on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
• it is a derivative that is not designated and effective as a hedging instrument."

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the banking is provided internally on that basis; or
• it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss

recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.
However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition. Such financial liabilities are detailed in note 2.2.4

Fair value is determined in the manner described in note 4.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Modification and derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Bank recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Bank recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Bank Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Transition

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 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 Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition."

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 2.2.4

2.5 Financial assets and liabilities (continued)

Policy applicable before 1 July 2018

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.

(a) Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or a mortised cost as described below.

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is , derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and comissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchange and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost

Is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write – down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method

Is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(b) Classification of financial assets

Financial assets have the following categories; (a) loans and receivables; (b) available – for – sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss, Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Bank intends to sell in the near term.

Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivable may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

(c) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities, Liabilities held for trading are carried at fair value with changes in value recognized in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortized cost.

(d) Financial assets

(i) Initial recognition and measurement

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

(ii) Subsequent measurement

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

• Loans and receivables

• Available-for-sale financial investments

(a) Loans and receivables

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

The Bank's loans and receivables comprise of Agricultural loans, Interest-Free loans, Industry loans, Domestic Trade and Service loans, Export loans, Import loans, Construction loans, Transport and communication loans, Hotel and tourism loans, Mining, power and water resources loans, Microfinance institution loans, Mortgage loans, Consumer and personal loans and Staff loans.

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

AFS investments include equity and debt 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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 income statement in impairment loss on financial investment. Interest earned whilst holding AFS financial investments is reported as interest and similar income using the EIR method. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

The Bank evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount 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 profit or loss. Refer to the information below under reclassification.

'Day 1' profit or loss

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

Reclassification of financial assets

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does 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 income statement 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 income statement.

The 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 Bank subsequently increases its 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 Bank of similar financial assets) is primarily derecognised (i.e. removed from the Bank's statement of financial position) when:

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

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

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

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

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

Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a Bank 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 Bank of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a Bank 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.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in income statement. 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.

2.5 Financial assets and at ammount cost (continued)

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 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 Banked on the basis of the 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 Bank 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 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 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.

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

(a)Probability of Default

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

(b) Loss Given Default

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.

(c) Exposure at Default

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

Impairment assessment (continued)

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

(d) Individual assessment

The Bank reviewed and revised 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 estimated the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount.

(e) 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.

Collective assessment (Contd)

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.

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

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. The Bank revalues its property at least after every 3 years and revalues motor vehicles at least once in every 2 years.

Collateral repossessed

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

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 Bank's financial liabilities include customer deposits and other liabilities. Interest expenditure is recognised in interest and similar expense.

Subsequent measurement

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

Financial liabilities at amortised cost

Financial instruments issued by the 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 Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Derecognition of financial liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where The Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Bank or the counterparty.

2.7 Interest Free Financing and Investment products before and after 01 July 2018

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products which are approved by its Sharia'h Supervisory Committee.

All Interest Free banking products are accounted for in conformity with the accounting policies described below:

With regard to Interest free banking products except impairment policy, no change is noted in adoption of IFRS 9 . The impairment policy of interest free financing products are similar with the policy stated above before and after adoption of IFRS-9

(i) Definition of Key Terms

Murabaha

An agreement whereby the bank sells to a customer a commodity or a property which the bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

Istisna

An agreement between the bank and a customer, whereby the bank develops and sells a property to the customer according to the specifications agreed upon. The bank may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre-agreed date and against fixed price.

Ijarah

An agreement whereby the bank (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

Salam

A contract whereby the bank purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The bank makes profit on Salam transactions, when the Salam commodities are received from the Salam customer and subsequently sold to a third party at profit

Interest Free Export Financing Facility

A non-profit bearing financing enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Mudaraba

A contract between the bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Musharaka

A contract between the bank and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either ongoing basis or for a limited time, during which the bank enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

Accounting policy for Interest Free Financing and Investment Products)

a) Murabaha financing

Murabaha financing receivables are deferred sale agreements whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Amounts receivable from Murabaha financing receivables are initially stated in the Statement of Financial Position at selling price. And Subsequently, they shall be stated at selling price less unearned income and provision for impairment at the reporting date.

b) Istisna

Istisna is an agreement between the Bank and a customer whereby the Bank sells to the customer an asset which is either constructed or manufactured by the purchaser on behalf of the Bank according with agreed-upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as well as the accrued income as of the date of the statement of financial position against assets being either constructed or manufactured.

After completion of the project, the Istisna asset is transferred to the Istisna receivable account and carried at the value of amounts disbursed, plus income accumulated over the manufacturing period, less provision for impairment.

c) Ijarah assets

Ijarah assets are initially stated in the Financial Statement of the Bank at cost.Subsequently, they shall be stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged from the date of recognition of ijarah assets on a straight line basis over the period of Ijarah. Impairment of Ijarah assets is determined on the same basis as that of operating fixed assets.

d) Salam Financing

Salam financings are reflected in the Financial Position of the Bank as receivables at the invoiced amount. Profit not due for payment is deferred and is recognized on a time proportion basis.

e) Interest Free Export Financing Facility

Interest Free Export Financing Facility is a short term financing given to the borrower for three months free of any charge or profit and not subject to discounting being a short term facility. Interest Free Export Facility Financing is stated in the statement of financial Position of the bank at the fair value of the consideration given(amounts of disbursement). and Subsequently, they shall be stated at disbursement amount less impairment (if any).

f) Mudaraba Investment

Mudaraba investment is based on the profit-sharing and loss-bearing Mudaraba contract where profits are shared between the parties based on the terms of the Mudaraba agreement. Initially Mudaraba contracts are stated in the statement of financial Position of the bank at fair value of the consideration given (amount of disbursement) and Subsequently, they shall be stated at fair value of the consideration given, less impairment.

g) Musharaka

In Musharaka based financing, the Bank enters into a Musharaka based on partnership for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic rental payment agreement for the utilization of the Bank's Musharaka share by the customer. Initially Musharaka and Diminishing Musharaka Financing are stated in the statement of financial Position of the bank at fair value of the consideration given (amount of disbursement) and Subsequently, they shall be stated in the financial Position of the Bank at disbursement amount less impairment.

Allowance for impairment is made against Interest Free financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 2.5.1). Interest Free financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from the following financing and investing receivables is recognized on the as follows policy:

(i) Murabaha

Murabaha income is recognized on a time apportioned basis over the period of the contract based on the outstanding principal amounts.

(ii) Istisna

Istisna revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istisna cost) are accounted for on a time proportion basis.

(iii) Ijara

Ijara income is recognized on a time apportioned basis over the lease term.

(V) Salam

Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

(vi)Mudaraba

Income or losses on Mudaraba financing are recognized on an accrual basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to the Bank's Statement of profit and loss on their declaration by the Mudarib.

(vi) Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

(vii) Forfeited income

According to the Bank's Fatwa and Sharia'a Supervisory committee, the bank is required to identify any income deemed to be derived from transactions not acceptable under Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory committee, and to set aside such amount in a separate account used to pay for charitable causes and activities.

(iv) Interest Free Banking customers' deposits and distributions to depositors

a) Interest Free Banking customers' deposits

Interest Free Banking customers' deposits such as Amana, Wadiaha and Mudaraba and other deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their carrying value.

b) Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders.

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 and restricted balances with National Bank of Ethiopia.

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 Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in income statement 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 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:

2.10 Property, plant and Equipment (continued)

Asset class	Useful life (years)
Buildings	50
Furniture and fittings	10-20
Equipment	5-10
Motor Vehicles	10

Computer and accessories	7-10

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

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

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

2.11 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 income statement in the period in which the expenditure is incurred .

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 income statement.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

- Swift software – 6 years
- Core Banking software – 6 years
- Mobile and agent banking software – 6 years

2.12 Investment property

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

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

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at cost 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 Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

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

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

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

2.13 Non-current assets (or disposal Banks) held for sale and discontinued operations

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

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

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

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

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

2.14 Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Banks 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 Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

2.15 Other assets

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

(a) Prepayment

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

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

2.16 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 4 and Note 15.14.1
- Quantitative disclosures of fair value measurement hierarchy Note 15.14.2
- Financial instruments (including those carried at amortised cost) Note 15.14.2"

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

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

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

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

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

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

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

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

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

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

2.17 Employee benefits

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

(a) Defined contribution plan

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;

ii) provident fund contribution, funding under this scheme is 7% and 14% by employees and the Bank respectively;

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

(b) Defined benefit plan

The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 the income statement 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 are payable to executive directors 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.

2.18 Provisions

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

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

2.19 Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.21 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to income statement over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

2.22 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment 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 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 the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Bank as a lessor

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

2.23 Income taxation

(a)Current income tax

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

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

(b)Deferred tax

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

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

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 Bank 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.

4 Significant accounting judgements, estimates and assumptions

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

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

- Capital management Note 5
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 5.6.2"

4.1 Judgements

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

Operating lease commitments - Bank as lessee

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

4.2 Estimates and assumptions

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

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 judgement is required in establishing fair values. Judgements 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 5.14 for further disclosures.

Defined benefit plans

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

Depreciation and carrying value of property, plant and equipment

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

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 Bank is 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.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, 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 judgement 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.

Development cost

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

5 Financial risk management

5.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.

5.2 Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board of Directors Risk Management and Compliance Committee (BDRMCC) has the overall responsibility for the development of risk strategy and implementing principles, framework, polices and limit. This subcommittee is also responsible for managing risk decisions and monitoring risk levels and report on monthly and quarterly basis to regulatory organ and the management.

The Risk Management and Compliance unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. This unit closely works with BDRMCC to ensure that procedures are complaint with overall framework.

The risk management function is a carried out in respect of financial risks (credit, market, and liquidity risks) and operational risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The Risk Management and Compliance Department is also responsible for ensuring that appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The Bank's risk management methodology polices and assessment procedures are designed to identify, analyze, mitigate and manage the risk faced by the Bank. This is accomplished through setting of appropriate risk limits and controls, whilst ensuring suitable monitoring of risk levels and compliance with the limits and procedures on an ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered, this is to ensure that "best practices" are implemented in the Bank.

Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialized bodies within the Bank, including committees and departments to comply with the requirement of the pertinent laws and industry best practices.

The Board of Directors has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management polices and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management, the Risk Management Committee, the Credit Committee, the Audit Committee and the Asset and Liability Committee ("ALCO").

The Risk Management and Compliance sub Committee is appointed by and reports directly to the Board of Directors.

5.2.1 Risk measurement and reporting systems

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

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

5.2.2 Risk mitigation

The bank uses board approved risk tolerance limit as a risk limit control. This risk tolerance limit composed of risk limit by economic sector, by credit product, by maturity, by geography and risk grade. There also limitation imposed by the regulatory organ such as single borrower limit, related party limit, off balance sheet exposure limit and connected counterparties limit to which all banks should comply.

As the credit risk mitigation, the bank established an appropriate risk environment, sound credit strategies, policies and procedures. In addition, there is active portfolio management, appropriate credit administration and monitoring and effective loan review function.

The other credit risk mitigation measures are obtaining sufficient collateral securities and guarantees for loans and advances as the second way out in case of default

5.3 Financial instruments by category

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

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

The Bank's classification of its financial assets is summarised in the table below:

		FVOCI	Amortized Cost	Total
30 June 2019	Notes	Birr'000	Birr'000	Birr'000
Cash and cash equivalents	16	-	5,120,927	5,120,927
Loans and advances to customers	17	-	15,323,833	15,323,833
Interest Free Financing	18	-	1,890,738	1,890,738
Investment securities:				
- Financial assets at fair value through OCI (2018-AFS)	19	95,478	-	95,478
-Financial assets at amortized cost (2018-Loans and Receivables)	19	-	7,073,001	7,073,001
Other assets	20	-	837,537	837,537
Total financial assets		**95,478**	**30,246,036**	**30,341,514**

		Available-For-Sale	Loans and receivables	Total
30 June 2018	Notes	Birr'000	Birr'000	Birr'000
Cash and cash equivalents	16	-	5,809,127	5,809,127
Loans and advances to customers	17	-	9,968,573	9,968,573
Interest Free Financing	18	-	1,621,293	1,621,293
Investment securities:		-	-	-
- Financial assets at fair value through OCI (2018-AFS)	19	68,705	-	68,705

-Financial assets at amortized cost (2018-Loans and Receivables)	19	-	4,855,817	4,855,817
Other assets	20	-	218,291	218,291
Total financial assets		**64,029**	**15,540,258**	**15,604,287**

5.4 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge his/her/its obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets including likelihood that borrower or counterparty fails to meet their obligations in accordance with agreed terms.

The bank manages and controls credit risk by setting limits on the amount of risk it is willing to take or accept for individuals counterparties and for economic sector ,product and maturity concentration and by monitoring exposures in relation to such limits.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Bank, These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating and scoring systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the National Bank of Ethiopia (NBE), related to lending operations, have also been carefully considered and embedded into the Bank's credit policy.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrowers, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent reviews.

The Bank established control over authorization of the loans issued. The credit Committee reviews and approves all loans exceeding certain amount and or having exceptional terms.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, kin part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the Credit management,Interest free banking and compliance and risk management department's. Based on a structured analysis, deteriorating creditworthiness is reported to, and reviewed by, the Management and Board of Directors.

The Bank does not use formalized internal credit ratings for retail loans to monitor exposure to credit risk. Management monitors and follows up on past due balances on monthly basis.

The Bank's credit monitoring and recovery office reviews the ageing analysis of outstanding loans and follows up on past due balances on monthly basis. Management therefore, considers it appropriate to provide ageing and other information about credit risk.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the loan contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures."

4.3.1 Management of credit risk

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

5.4.2 Credit related commitment risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

5.4.3 Maximum exposure to credit risk before collateral held or credit enhancements

(a) Types of credit exposure

The banks maximum exposure to credit risk at 30 June 2019 and 30 June 2018 is represented by the net carrying amounts in the statement of financial position.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash and cash equivalents	5,120,927	5,809,127
Loans and advances to customers	15,323,833	9,968,573
Interest Free Financing	1,890,738	1,621,293
Investment securities:		
- Financial assets at fair value through OCI (2018-AFS)	95,478	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	7,073,001	4,855,817
Other assets	837,537	218,291
Total financial assets	**30,341,514**	**22,541,806**

Credit risk exposures relating to off balance sheets are as follows:

Loan commitments	2,242,471	1,451,049
Financing commitment on Interest Free Banking	1,799,804	1,197,882
Letter of credit net of margin held	455,292	361,294
Commitment on letter of credit net of urbun held	39,800	105,350
Guarantees	1,365,208	855,316
Total off balance sheet exposure	5,902,575	3,970,891
Total maximum exposure	**36,244,089**	**26,512,697**

(b) Assets obtained by taking possession of collateral

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Buildings	28,863	29,930
Motor vehicles	-	-
	28,863	**29,930**

The Bank's policy is to pursue timely realisation of the collateral in a timely manner. The Bank does not generally use the non-cash collateral for its own operations.

(c) Loans and advances to customers at amortised cost,

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Agriculture	226,738	206,345
Industry	1,486,938	1,051,846
Domestic trade and services	4,681,099	2,907,290
Export	3,860,093	2,687,653
Import	1,060,543	595,749
Construction	1,858,505	1,016,354
Transport and communication	250,135	264,832
Hotel and tourism	957,211	681,631
Mining, power and water resources	-	-
Microfinance institution	42,535	42,514
Mortgage Loan- Staff	588,619	352,801
Mortgage Loan- Customer	333,748	70,415
Personal Loan -Staff loans	87,061	59,873
Emergency staff loans	123,533	103,319
Consumer Loans- Customer	39,332	19,867
Gross Loans and advances	**15,596,090**	**10,060,489**

(ii) Interest free financing per sector is analysed as follows:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Murahabah Financing- Agriculture	100,505	87,399
Murahabah Financing- Construction	251,261	122,620
Murahabah Financing- Agriculture Merchandize	-	-
Murahabah Financing- Industry	330,038	185,195
Murahabah Financing- DTS	648,393	408,963
Murahabah Financing- Export	-	-
Interest Free Export Facility Financing	208,425	481,990
Murahabah Financing- Import	158,561	169,402
Murahabah financing	-	-
Murahabah Financing- Hotel and Tourism	18,177	11,796
Murahabah Financing- Transport and Communication	107,117	118,309
Muruhabah Financing- Consumer and Personal	-	-
Gross Interest Free Financing	**1,822,477**	**1,585,674**

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Pass	14,651,264	9,359,467
Special mention	389,441	311,619
Substandard	254,324	219,973
Doubtful	146,258	88,471
Loss	154,803	80,958

Gross Loans and Advances	**15,596,090**	**10,060,488**

(iv) Interest Free Financing per National Bank of Ethiopia's impairment guidelines is analysed as follows:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Pass	1,554,596	1,106,606
Special mention	162,779	401,619
Substandard	54,275	28,351
Doubtful	8,515	22,396
Loss	42,312	26,703
Gross Interest Free Financing	**1,822,477**	**1,585,675**

5.4.4 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2019) and available-for-sale debt assets (2018). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.5

(i) Loans and advances to customers at amortized cost

Birr'000				2019	2018
Credit risk exposure	Stage 1 12 Month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	TOTAL	Total
Stage 1 – Pass	14,651,264	-	-	14,651,264	9,359,467
Stage 2 – special mention	-	389,441	-	389,441	311,619
Stage 3 - Non performing	-	-	555,386	555,386	389,402
Total gross exposure	-	-	-	-	10,060,488
Loss allowance	(127,455)	(11,819)	(132,982)	(272,257)	(91,916)
Net Carrying amount	14,523,809	377,622	422,404	15,323,833	9,968,573

(ii) Interest Free Financing measured at amortized cost

Birr'000				**2019**	**2018**
Financing risk exposure	**Stage 1 12 Month ECL**	**Stage 2 Life time ECL**	**Stage 3 Life time ECL**	**Total**	**Total**
Stage 1 – Pass	1,554,596	-	-	1,554,596	1,106,606
Stage 2 – special mention	-	162,778.54	-	162,779	401,619
Stage 3 - Non performing	-	-	105,102.28	105,102	77,450
Total gross exposure	1,554,596	162,778.54	105,102.28	1,822,477	1,585,675
Loss allowance	7,930	7,165	38,331	53,427	(41,509)
Net Carrying amount	**1,546,666**	**155,613.21**	**66,771.34**	**1,769,051**	**1,544,165**

(iii) Other financial assets

Birr'000	**2019**

Credit risk exposure	Gross exposure	Loss allowance	Net carrying amount
cash and cash equiv-alents	5,120,927	(181.00)	5,120,746
Investment secuities (debt instruments)	7,073,001	(354.00)	7,072,647
Other receivables and financial assets	837,537	(5,926.00)	831,611
Totals	13,031,465	(6,461.00)	13,025,004

(iv) other financial assets (continued)

Birr'000	2018		
Credit risk exposure	Gross exposure	Loss allowance	Net carrying amount
cash and cash equiv-alents	5,809,127	-	5,809,127
Investment secuities (debt instruments)	4,855,817	-	4,855,817
Other receivables and financial assets	236,526	(18,235)	218,291
Totals	10,901,470	(18,235.30)	10,883,235

v) Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

vi) Investment securities designated as at FVTPL

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

5.4.4 Amounts arising from ECL

i) inputs, assumptions and techniques used for estimating impairement

See accounting policy in note 2.5

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; with

• the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

• the Bank uses three criteria for determining whether there has been a significant increase in credit risk:

• quantitative test based on movement in PD;

- qualitative indicators; and
- a backstop of 30 days past due,

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

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

a. Term loan exposures

• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance

•Data from credit reference agencies, press articles, changes in external credit ratings

•Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

•Internally collected data on customer behaviour – e.g. utilisation of credit card facilities

•Affordability metrics

b. Overdraft exposures

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

iv) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed 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.

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 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 ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

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

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

vi) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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 ECL.

For each segment the Bank formulates three economic scenarios: a base case, which is the median scenario , and two less likely scenanios, one upside and one downside. for each sector, the base case is aligned with the macroecnomic molel's information value output, ameasure of the predicive power of the predicitive power of the mode, as well as base macroeconmic projections for identified macroeconomic variables for each sector. The upside and downside scenarios are based on a combination of a measure of historical macroeconomic volatilites.

External information considered includes economic data and forecasts published by Business Monitor International, an external and independent macroeconmic date body, This is in addition to industry-level, semi annual NPL trends across statically 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 foreach portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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

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

The economic scenarios used as at 30 June 2019 included the following key indicators for Ethiopia for the years 2019 to 2023:

Macro-economic factor	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317.4	349.1	384
GDP: GDP per capita, USD	836	928	1019
GDP EXPENDITURE: Exports of goods and services, USD per capita	54.9	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	179.8	213.8	260.3
EXCHANGE RATE: ETB/USD	29.23	31.1	33.15
GDP EXPENDITURE: Imports of goods and services, USDbn	16.6	16.9	17.1
FISCAL: Current expenditure, USDbn	7.8	8.3	8.9

GDP EXPENDITURE: Imports of goods and services, ETBbn	485.3	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	296.3	326	358.6
DEBT: Government domestic debt, ETBbn	642.7	752	872.3
EXCHANGE RATE: Real effective exchange rate, index	123.13	121.01	117.74
GDP EXPENDITURE: Private final consumption, USDbn	58.9	66.2	73.5
STRATIFICATION: Household Spending, ETBbn	1707.6	1926.3	2149.3
FISCAL: Total revenue, USDbn	10.5	10.9	11.4
DEBT: Total government debt, USDbn	57	65.2	75.4

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing 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; withthe 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. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

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

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

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recoverycosts 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 observationsand 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 increasein credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

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

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

x) Loss allowance

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

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

	2019			
Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers and Interest Free Financing at amortised cost (on balance sheet exposures)	-	-	-	**133,426**
Balance as at 1 July 2018	57,359	7,313	94,626	25,872
Day one IFRS 9 transition adjustment	13,507	(2,408)	(11,098)	-
Adjusted balance at 1 July 2018	**70,866**	**4,905**	**83,527**	**159,298**
Transfer to stage 1	13,507	(2,408)	(11,098)	-
Transfer to stage 2	(816)	1,575	(759)	-
Transfer to stage 3	(1,345)	(459)	1,804	-
Net remeasurement of loss allowance	2,324	2,373	80,691	85,388
New financial assets originated	56,723	8,656	36,997	102,376
Financial assets derecognised	(17,719)	(4,158)	(36,688)	(58,566)
Balance as at 30 June 2019	**110,031**	**12,891**	**165,573**	**288,496**

	2019			
Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments and financial guarantee contracts (off balance sheet exposures)				
Balance as at 1 July 2018	-	-	-	-
Day one IFRS 9 transition adjustment	11,980	-	1,533	13,513
Adjusted balance at 1 July	11,980	-	1,533	13,513
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(354)	354	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	4,664	223	3,418	8,305
New financial assets originated	15,230	5,517	809	21,555
Financial assets derecognized	(6,131)	(0)	(159)	(6,291)
Balance as at 30 June 2019	**25,389**	**6,093**	**5,740**	**37,083**

	2019			
In Birr'000	**Cash and balances with banks**	**Investment securities (debt instruments)**	**Other receivables and financial assets**	**Total**
Other financial assets (debt instruments)	-	-	-	-
Balance as at 1 July 2018	-	-	18,235	18,235
Day one IFRS 9 transition adjustment	196	243	(14,970)	(14,530)
Adjusted balance at 1 July 2018	196	243	3,265	3,705
Net remeasurement of loss allowance	(15)	111	2,661	2,757
Balance as at 30 June 2019	181	354	5,926	6,461

Credit quality analysis for loans and advances comparative information under IAS 39 summarized as follows;

(a) credit quality of loans and receivables

	Neither past due nor impaired	Past due but not impaired	Collectively Impaired	Individually impaired	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
30 June 2018					
Agriculture	152,433	30,251	12,355	11,306	206,345
Industry	1,016,749	6,154	6,484	22,459	1,051,846
Domestic trade and services	2,617,169	106,606	114,269	69,246	2,907,290
Export	2,630,270	22,321	9,023	26,039	2,687,653
Import	545,574	33,050	17,125	-	595,749
Construction	927,466	53,367	17,224	18,297	1,016,354
Transport and communication	237,623	11,648	15,560	-	264,832
Hotel and tourism	588,918	45,525	9,327	37,861	681,631
Mining, power and water resources	-	-	-	-	-
Microfinance institution	42,514	-	-	-	42,514
Mortgage Loan- Staff	350,386	1,160	1,255	-	352,801
Mortgage Loan- Customer	69,382		1,033	-	70,415
Personal Loan-Staff	59,482	391	-	-	59,873
Emergency staff loans	103,319	-	-	-	103,319
Consumer loans- Customer	18,182	1,147	538	-	19,867
Gross	**9,359,467**	**311,619**	**204,193**	**185,209**	**10,060,489**
Less: Impairment allowance	(41,462)	(1,457)	(24,111)	(24,885)	(91,916)
Net	**9,318,005**	**310,162**	**180,082**	**160,324**	**9,968,573**

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

The credit quality of the portfolio of loans and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and receivables in this category are short term loans past due for less than 30 (thirty) loans and medium and long term loans past due for less than 180 (one hundred eighty) days.

	30 June 2018
	Birr'000
Neither past due nor impaired	9,359,467
Collective impairment	(41,462)
Loan and receivables (net)	**9,318,005**

(b) credit quality of loans and receivables (continued)

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

	30 June 2018
	Birr'000
Past due up to 90 days	311,619

Collective impairment	(1,457)
Loan and receivables (net)	**310,162**

(iii) Loans and receivables - collectively impaired

Past due by 90 - 180 days	122,677
Past due by 180- 360 days	58,182
Past due by more than 360 days	23,334
Collective impairment	(24,111)
Loan and receivables (net)	**180,082**

Loans and receivables that have been classified as neither past due nor impaired or past due but not impaired and collectively impaired are assessed on a collective basis.

(iv) Loans and receivables -individually impaired loans

	30 June 2018 Birr'000
Substandard	97,297
Doubtful	30,289
Loss	57,623
Specific impairment	(24,885)
Loan and receivables (net)	**160,324**

(v) Allowance for impairement

	30 June 2018 Birr'000
Specific impairment	24,885
Collective impairment	67,031
Total allowance for impairment	**91,916**

(c) credit quality analyis of interest free financing products comparative information under IAS 39 summarized as follows;

30 June 2018	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Collectively Impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Murahabah Financing- Agriculture	59,317	24,304	3,777	-	87,399
Murahabah Financing- Construction	104,763	17,856	-	-	122,620
Murahabah Financing- Industry	168,352	16,841	2	-	185,195
Murahabah Financing- DTS	300,396	97,560	11,008	-	408,963
Interest Free Export Facility Financing	221,542	218,826	8,075	33,546	481,990
Murahabah Financing- Import	134,319	19,428	319	15,336	169,402
Murahabah financing	-	-	-	-	-
Murahabah Financing- Hotel and Tourism	11,796	-	-	-	11,796
Murahabah Financing- Transport and Communication	106,120	6,803	5,386	-	118,309

Muruhabah Financing- Consumer and Personal	-	-	-	-	
Gross Financing	**1,106,606**	**401,619**	**28,569**	**48,882**	**1,585,674**
Profit receivable from Murubaha Financing					262,420
Less: Deferred profit					**(185,291)**
Less: Impairment allowance	**(5,167)**	**(2,205)**	**(3,194)**	**(30,944)**	**(41,509)**
Net carrying amount	**1,101,439**	**399,413**	**25,375**	**17,938**	**1,621,294**

(i) Interest Free Financing - neither past due nor impaired

The credit quality of the portfolio of Interest Free Financing and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience.Interest Free financing and receivables in this category are short term Financing past due for less than 30 (thirty) Interest Free financing and medium and long term financing past due for less than 180 (one hundred eighty) days.

	30 June 2018 Birr'000
Neither past due nor impaired	1,106,606
Collective impairment	(5,167)
Net carrying amount	**1,101,439**

(c) credit quality analyis of interest free financing products (continued)

(ii) Interest free financing -past due but not impaired

	30 June 2018 Birr'000
Past due up to 90 days	401,619
Collective impairment	(2,205)
Interest Free Financing (net)	**399,413**

(iii) Interest free financing- collectively impaired

Past due by 90 - 180 days	11,083
Past due by 180- 360 days	15,782
Past due by More than 360 days	1,703
Gross	**28,569**
Collective impairment	**(3,194)**
Interest Free Financing (net)	**25,375**

(iv) Interest Free Financing -individually impaired financing

		30 June 2018 Birr'000
Substandard		17,268
Doubtful		6,614
Loss		25,000
Specific impairment		(30,944)
Interest Free Financing (net)	-	**17,938**

(v) Allowance for impairment

		30 June 2018
		Birr'000
Specific impairment		30,944
Collective impairment		10,566
Total allowance for impairment	-	**41,509**

5.4.5 Credit quality analysis

(a) Credit quality of cash and cash equivalents

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
AAA+	-	-
AA	-	-
B	-	-
BBB	1,291,200	1,287,479
Not rated	3,829,727	4,521,648
Total	**5,120,927**	**5,809,127**

5.4.6 Statement of Prudential adjustments

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

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

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

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

• Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve".

• Prudential provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve(retained earnings) account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital."

During the period ended 30 June 2018, the Bank transferred an amount of Birr 121,540 million to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IAS 39 as at year end.

In line with the same directive of the NBE, the Bank compared the provision based on the Directive with impairment under IFRS-9 for comparative periods and hence the bank transfered an amount of Birr 121,540 million to retained earnings from the regulatory risk reserve as the impairment balance under IFRS was higher for the year 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Total impairment based on IFRS	325,683	133,426
Total impairment based on NBE Directives	302,422	254,966
Variation	**23,261**	**(121,540)**

In line with the directive of the NBE, the Bank compared the provision for other assets based on the Directive with impairment for other assets under IFRS-9 for same period and hence the bank transfered an amount of Birr 16,008 million from retained earnings to the regulatory risk reserve as the impairment balance under IFRS was lower for the year 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Total Impairment for other Assets Based on IFRS	6,636.92	-
Total Impairement for other Assets Based on NBE directives	45,906.26	-
Excess amount for Other Assets Provision	(39,269.34)	-
Amount Transferred to Regulatory Risk Reserve	**(16,008.30)**	-

As per the requirements of IFRS , banks should recognize interest income on the written down amount of the loan after the impairment loss, on an accrual basis, using the EIR. However, As per the requirement of National Bank of Ethiopia, banks should derecognized interest income on impaired exposures, special attention should be paid to impaired exposures with a higher number of days past due (e.g. more than 90 days past due).

	30 June 2019 Birr'000	30 June 2018 Birr'000
Write backed Suspended interest	41,351	24,065
Realized interest from last year Non impaired loans and advances	(14,586)	-
Net amount transferred to regulatory risk resrve	**26,764**	**24,065**

5.4.7 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2019 and 30 June 2018. The Bank concentrates all its financial assets in Ethiopia.

30 June 2019	Domestic and Trade Services Birr'000	Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and cash equivalents				5,120,927
Loans and receivables	4,681,099	3,860,093	1,858,505	5,196,393

Interest Free Financing	648,393	208,425	251,261	714,398
Investment securities:				
- Financial assets at fair value through OCI (2018-AFS)	-	-	-	95,478
-Financial assets at amortized cost (2018-Loans and Receivables)	-	-	-	7,073,001
Other financial assets	-	-	-	837,537
Total financial assets	**5,329,492**	**4,068,518**	**2,109,766**	**19,037,734**

30 June 2018	Domestic and Trade Services Birr'000	Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and cash equivalents	-	-	-	5,809,127
Loans and receivables	2,907,290	2,687,653	1,016,354	3,449,192
Interest Free Financing	408,963	481,990	122,620	572,102
Investment securities:	-	-	-	
- Financial assets at fair value through OCI (2018-AFS)	-	-	-	68,705
-Financial assets at amortized cost (2018-Loans and Receivables)	-	-	-	4,855,817
Other financial assets	-	-	-	218,291
Total financial assets	**3,316,253**	**3,169,643**	**1,138,974**	**14,973,234**

5.4.8 Nature of security in respect of loans and advances to customers

30 June 2019	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	526,113	-	4,493	-	-
Domestic trade	8,716,190	852	16,620	62,526	6,652
Export	4,016,838	3,000	77,077	193,088	146,615
Financial Institution	33,049	2,100	-	-	-
Hotel and tourism	2,694,872	-	-	-	15,918
Housing and construction	3,784,579	-	148,122	89,738	-
Import	1,529,263	500	7,500	77,249	-
Industry	2,507,733	12,647	-	2,350	72,253
Mines, Power and Water Resource	-	-	-	-	-
Mortgage Consumer Loan	549,772	-	740	-	-
Mortgage Staff Loan	1,438,248	-	-	500	-
Personal Consumer Loan	147,127	-	-	11,565	357
Personal Staff Loan	196,047	-	-	2,365	-
Transport and communication	514,404	-	-	171,376	-
Total	**26,654,235**	**19,099**	**254,552**	**610,757**	**241,796**

30 June 2018	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	228,769	-	7,710	154,170	-
Domestic trade	6,230,866	-	2,076	276,288	66,610
Export	2,865,362	3,000	3,333	153,491	389,043
Financial Institution	19,972	-	-	-	-
Hotel and tourism	2,512,490	-	-	4,533	25,428
Housing and construction	2,362,172	-	66,988	100,212	10,622
Import	1,939,451	-	15,267	150,249	15,609
Industry	2,307,086	100,050	20,271	26,991	272,371
Mines, Power and Water Resource	-	-	-	-	-
Mortgage Consumer Loan	231,891	-	-	3,757	
Mortgage Staff Loan	921,874	-	-	2,921	112
Personal Consumer Loan	88,904	-	-	2,550	-
Personal Staff Loan	253,139	-	-	1,250	-
Transport and communication	729,804	-	9,099	248,665	103
Total	**20,691,779**	**103,050**	**124,744**	**1,125,077**	**779,898**

5.4.9 Nature of security in respect of Interest Free Financing

30 June 2019	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	238,123	-	-	-	-
Construction	1,218,092	-	-	-	-
Domestic Trade Services	1,263,908	-	-	-	-
Export	621,725	-	-	-	30,000
Hotel and Tourism	2,776	-	-	-	-
Import	580,641	-	-	-	-
Industry	748,009	-	-	-	-
Mortagage	18,619	-	-	-	-
Transport and Communication	322,964	-	-	3,375	-
Total	**5,014,858**	**-**	**-**	**3,375**	**30,000**

30 June 2018	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	158,766	-	-	-	-
Construction	550,037	-	-	-	-
Domestic Trade Services	1,177,605	-	-	-	10,000
Export	704,283	12,831	3,075	17,409	-
Hotel and Tourism	29,059	-	-	-	-
Import	108,258	-	-	-	-
Industry	255,098	-	-	-	-
Transport and Communication	143,227	-	-	-	-

Total	3,126,334	12,831	3,075	17,409	10,000

5.4.10 Collateral held and their financial effect

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

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

For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

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

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

5.4.11 Write-off policy

The Bank writes off Loans and Advance balance, and any related allowances for impairment losses, when Bank determines that the Loans and advances or security is uncollectible and after approval is obtained. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans and advances, write-off decisions generally are based on a product-specific past due status. There was no amount write off during the year.

5.5.1 Management of liquidity risk

The day-to-day liquidity management is performed by the Accounting and Treasury Department with in a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Risk Management and Compliance Department. The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations' which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the National Bank of Ethiopia (NBE). This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 19.72% as at 30 June 2019 and 31.02% as at June 30,2018 whereas the minimum percentage required by the NBE is 15%.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, maintaining funding contingency plans, and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the NBE.

The Accounting and Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Accounting and Treasury Department then provides for an adequate portfolio of short-term liquid assets, made up of short-term deposits with banks to ensure that sufficient liquidity is maintained within the Bank as a whole.

5.5.2 Maturity analysis of financial liabilities

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

30 June 2019	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	16,825,637	3,365,127	1,121,709	673,025	448,684
Interest Free customers' deposits	3,116,207	623,241	207,747	124,648	83,099
Debt securities issued	-	-	-	-	-
Borrowings	-	-	-	-	-
Other liabilities	1,002,263	-	-	-	-
Total financial liabilities	**20,944,108**	**3,988,369**	**1,329,456**	**797,674**	**531,783**

30 June 2018	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	12,685,304	2,537,061	845,687	507,412	338,275
Interest Free customers' deposits	2,259,958	451,992	150,664	90,398	60,266
Debt securities issued	-	-	-	-	-
Borrowings	-	-	-	-	-
Other liabilities	870,061	-	-	-	-
Total financial liabilities	**15,815,322**	**2,989,052**	**996,351**	**597,810**	**398,540**

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

5.6.1 Management of market risk

The bank manages and control market risk exposures within acceptable limits, while optimizing the return on risk. The Risk Management and Compliance Department is in charge of managing market risk, regularly, to identify any adverse movement in interest rate and foreign currency exchange rate.

(i) Interest rate risk

Interest rate risk is the potential loss on the bank arising from mismatch between positions, which are subject to interest rate adjustment within a specified period, or in any other interest rate relationship. The Bank's lending, funding and investment activities give rise to interest rate risk. The bank conduct thorough and stress testing on unexpected changes in the general level of interest rate, market interest rate, key assumptions and parameters, and monitor interest rate risk factor on ongoing basis.

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

30 June 2019	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	1,793,437	-	3,327,490	5,120,927
Loans and advances to customers	15,323,833	-	-	15,323,833
Interest Free Financing	-	-	1,890,738	1,890,738
Investment securities	7,073,001	-	-	7,073,001
Total	**24,190,271**	**-**	**5,218,228**	**29,408,499**
Liabilities				
Deposits from customers	22,434,183	-	-	22,434,183
Interest Free customers' deposits	-	-	4,154,943	4,154,943
Debt securities issued	-	-	-	-
Borrowings	-	-	-	-
Other liabilities	-	-	1,002,263	1,002,263
Total	**22,434,183**	**-**	**5,157,206**	**27,591,389**

5.6.2 Management of market risk (continued)

30 June 2018	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	2,076,501	-	3,732,626	5,809,127
Loans and advances to customers	9,968,573	-	-	9,968,573
Interest Free Financing	-	-	1,621,293	1,621,293
Investment securities	4,855,817	-	-	4,855,817
Total	**16,900,891**	**-**	**5,353,919**	**22,254,810**
Liabilities				
Deposits from customers	16,913,738	-	-	16,913,738
Interest Free customers' deposits	-	-	3,013,277	3,013,277
Other liabilities	-	-	870,061	870,061
Total	**16,913,738**	**-**	**3,883,338**	**20,797,076**

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 . The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

30 June 2019	"Increase (decrease) in basis points" Birr'000	"Sensitivity of profit or loss" Birr'000	"Sensitivity of equity" Birr'000
	10%	(6)	(6)
	-10%	6	6

30 June 2018	Increase (decrease) in basis points Birr'000	"Sensitivity of profit or loss" Birr'000	"Sensitivity of equity" Birr'000
	10%	(144)	(144)
	-10%	144	144

(ii) Foreign exchange risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 708,888 million (30 June 2018: Birr 807,346 million).

Foreign currency denominated balances

30 June 2019

	USD Birr'000	EURO Birr'000	GBP Birr'000	Total Birr'000
Financial assets				
Cash and bank balances	1,365,000	17,502	3,777	1,386,279
Financial liabilities				
Deposit from customers	666,072	11,203	117	677,391
Net foreign currency denominated balances	**698,928**	**6,299**	**3,660**	**708,888**

30 June 2018

	USD Birr'000	EURO Birr'000	GBP Birr'000	Total Birr'000
Financial assets				
Cash and bank balances	1,231,763	106,580	1,250	1,339,593
Financial liabilities				

Deposit from customers	525,328	6,680	239	532,247
Net foreign currency denominated balances	**706,435**	**99,900**	**1,011**	**807,346**

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% and its impact on Profit and Loss as shown below:

	30 June 2019 Birr'000	30 June 2018 Birr'000
10% appreciation in exchange rate for USD	69,893	70,643
10% depreciation in exchange rate for USD	(69,893)	(70,643)
10% appreciation in exchange rate for EURO	630	9,990
10% depreciation in exchange rate for EURO	(630)	(9,990)
10% appreciation in exchange rate for GBP	366	101
10% depreciation in exchange rate for GBP	(366)	(101)

5.7 Capital management

The Bank's objectives when managing capital are (i) To ensure that the bank has adequate capital and effective plans to prudently manage its capital and meets regulatory requirements; (ii) To ensure that the Bank's risk appetite is based on a capital adequacy ratio sufficient for the Bank to continue its business activities;(iii) To ensure that Bank's capital is adequate to absorb unforeseen losses and thus provide a source of protection to depositors and other creditors in the event of difficulties; (v) Establishing and implementing sound and prudent policies governing the quantity and quality of capital required to support the bank (vi) Developing and implementing appropriate and effective policies to monitor, on an ongoing basis, bank's capital requirements and capital position to ensure that the institution meets its capital requirements and will continue to meet its future capital requirements.

5.7.1 Capital adequacy ratio

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

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Capital		
Capital contribution	2,393,675	1,614,643
Retained earnings	613,086	383,233
Legal reserves	642,233	457,285

Regulatory Risk Reserve	66,838	145,605
	3,715,832	**2,600,766**
Risk weighted assets		
Risk weighted balance for on-balance sheet items	27,370,016	20,258,258
Credit equivalents for off-balance Sheet Items	1,793,153	1,177,753
	29,163,169	**21,436,011**
Risk-weighted Capital Adequacy Ratio (CAR)	**13%**	**12.13%**
TIER 1 CARMinimum required capital	8%	8%
Excess	4.74%	4.13%

5.8 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the banks processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the bank's operations and are faced by all business entities.

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions

b) Requirements for the reconciliation and monitoring of transactions,

c) Compliance with regulatory and other legal requirements ,

d) Documentation of controls and procedures ,

e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,

f) Requirements for the reporting of operational losses and proposed remedial action,

g) Development of contingency plans,

h) Training and professional development,

i) Ethical and business standards ,

j) Risk mitigation, including insurance where this is effective.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the bank.

5.9 Strategic risk

Strategic risk arises from choosing a wrong strategy, unsuccessful implementation of strategy, changes in the competitive environment or responding too slowly to changes. Strategic risks are minimized by means of regular updates of strategic and annual plans. Analyses of the condition and development of the OIB, as well as other analyses and estimates concerning the development of the sector, competition and financial operating environment are utilized in the planning.

5.10 Sharia Non-compliance Risk

This potential loss is arising from the failure to comply with the Sharia rules and principles. The bank manages this risk by strictly adhering to Sharia rules and principles, own policy and procedures and NBE directives.

5.11 Rate of return

A variable rate of return on investment account holders introduces uncertainty regarding the real value of deposit. Asset preservation in terms of minimizing the risk of loss due to a lower rate of return may be important factors in depositors' withdrawal decisions. From the bank perspective, this introduces a "withdrawal risk" that is linked to the lower rate of return relative to other financial institution.

The bank will manage the rate of return risk by putting in place appropriate systems for identifying and measuring the factors which give raise to rate of return risk.

5.12 Displaced Commercial Risk

It is the risk that the bank may confront commercial pressure to pay returns that exceeds the rate that has been earned on its assets financed by investment account holders. The bank forgoes part or its entire share of profit in order to retain its fund providers and dissuade them from withdrawing their funds

5.13 Equity investment risk

"This is the risk arising from entering in to a parternership for the purpose of undertaking or participating in a particular financing or general business activity as described in the contract, and in which the provider of finance shares in the business risk. This risk type is relevant under Mudharabah and Musharakah contract. While investment made via Mudharabah and Musharakah instruments may contribute substantially to IFBWS earnings, they entail significant counterparty, market, liquidity, credit and other risks, potentially raising giving rise to volatility in earning and capital.

As the risk mitigation instrument IFBW may require the Mudarib or Musharakah partner to provide collateral or guarantee.

5.14 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 of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

15.14.1 Valuation models

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

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

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

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

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

5.14.2 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 categorised. The amounts are based on the values recognised in the statement of financial position.

30 June 2019	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	5,120,927	5,120,927	-	-	5,120,927
Loans and advances to customers	15,323,833	-	-	15,323,833	15,323,833
Interest Free Financing	1,890,738	-	-	1,890,738	1,890,738
Investment securities	7,168,479	-	-	7,168,479	7,168,479
Total	**29,503,977**	**5,120,927**	-	**24,383,050**	**29,503,977**
Financial liabilities					
Deposits from customers	22,434,183	-	-	22,434,183	22,434,183
Interest Free customers' deposits	4,154,943	-	-	4,154,943	4,154,943
Other liabilities	1,002,263	-	-	1,002,263	1,002,263
Total	**27,591,389**	-	-	**27,591,389**	**27,591,389**

30 June 2018	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	5,809,127	5,809,127	-	-	5,809,127
Loans and advances to customers	9,968,573	-	-	9,968,573	9,968,573
Interest Free Financing	1,621,293	-	-	1,621,293	1,621,293
Investment securities	4,924,522	-	-	4,924,522	4,924,522
Total	**22,323,515**	**5,809,127**	-	**16,514,388**	**22,323,515**

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

Financial liabilities					
Deposits from customers	16,913,738	-	-	16,913,738	16,913,738
Interest Free customers' deposits	3,013,277	-	-	3,013,277	3,013,277
Other liabilities	870,061	-	-	870,061	870,061
Total	**20,797,076**	-	-	**20,797,076**	**20,797,076**

15.14.4 Valuation technique using significant unobservable inputs – Level 3

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

15.14.5 Transfers between the fair value hierarchy categories

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

5.15 Offsetting financial assets and financial liabilities

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

6	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income from Loans and advances		
Interest income earned on deposits	62,107	40,218
Interest on Investment securities	179,421	124,948
Interest on Agriculture loans	36,485	33,304
Interest on Industry loans	202,572	108,578
Interest on Domestic loans	602,160	459,708
Interest on Export loans	424,539	233,139
Interest on Import loans	136,115	107,003
Interest on Import Bills	-	8,276
Interest on Construction loans	237,467	169,975
Interest on Mortgage loans	56,956	31,603
Interest on Personal loans	9,879	5,950
Interest on Transport loans	45,401	52,972
Interest on Hotel and Tourism loans	134,535	112,790
Interest on Microfinance loans	6,848	4,817
Interest on Mines, Power and Water loans	-	-
Interest Earned -on Non- Performing Loan	41,383	3,345
Interest On Staff Loans	42,204	8,942
Total	**2,218,072**	**1,505,568**

7	30 June 2019 Birr'000	30 June 2018 Birr'000
Income from Interest free financing and investment products		
	-	
Income From Murabaha Financing	163,133	115,675
Income from Interest Free Banking-Agriculture	928	1,481
Income from Interest Free Banking-Industry	4,502	2,328
Income from Interest Free Banking-DTS	5,194	6,640
Income from Interest Free Banking-Import	1,227	(1,909)
Income from Interest Free Banking-Construction	3,985	6,132
Income from Interest Free Banking-Transport and communication	857	2,638
Income from Interest Free Banking-Hotel and Tourism	1,338	3,840
Income from Interest Free Banking-Export	159	-

Income from Interest Free Banking-Mines ,Power & Water	63	-
Total	**181,386**	**136,825**

Included within various line items under interest income for the year ended 30 June 2019 is a total of Birr 24,512 million (30 June 2018: Birr 3,256 million) relating to impaired financial assets.

	30 June 2019 Birr'000	30 June 2018 Birr'000
8 Interest expense		
Interest on fixed time deposits	191,942	133,525
Interest on saving deposits	644,568	409,217
Interest on demand deposits	293	690
Interest on NBE Borrowing	-	-
Interest due to local banks	-	-
	-	
Total	**836,803**	**543,432**

9 Distribution to depositors- Interest Free Banking Products		
Profit share on Mudharaba deposits	**13**	**166**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Net fees and commission income		
Fee and commission income		
Miscellaneous income	28,675	23,706
Commission on letters of credit	36,544	30,158
Inspection and estimation income	25,027	15,339
Service charge	3,443	4,379
Commitment fee	12,054	3,049
Opening commission	127,517	100,210
Extension commission	30,254	29,887
Confirmation commission	14,988	15,006
Service charge- Foreign	372,323	280,379
Swift charges	3,379	3,438
Interest free banking commissions	-	-
	654,204	505,551
Fee and commission expense		
	-	-
Net fees and commission income	**654,204**	**505,551**

	30 June 2019 Birr'000	30 June 2018 Birr'000
10 Other operating income		

Dividend income	6,572	5,038
Gain on disposal of assets	1,572	133
Sundry income	8,815	110,246
Rental income	14,272	16,502
Gain on foreign exchange	146,410	188,544
Total	**177,641**	**320,463**

		30 June 2019 Birr'000	30 June 2018 Birr'000
11	**Loan impairment charge**		
	Loans and receivables - charge for the year (Conventional Banking)	143,146	8,971
	Interest Free Financing - charge for the year (Interest Free Banking)	9,775	9,374
	Loans and receivables - reversal of provision (note 15a)	-	
	Total	**152,921**	**18,345**

		30 June 2019 Birr'000	30 June 2018 Birr'000
12	**Impairment losses on other assets**		
	Other assets - charge for the year (note 17)	2,881	11,378
	Interest free financing-charge for the year	-	-
	Other assets - reversal of impairment losses (note 17)	-	
	Total	**2,881**	**11,378**

		30 June 2019 Birr'000	30 June 2018 Birr'000
13	**Personnel expenses**		
	Salaries and wages	497,981	405,059
	Pension costs – Defined contribution plan	64,030	51,193
	Bonus	75,539	78,105
	Other staff expenses	100,779	72,348
	Prepaid staff benefit expense	42,204	8,942
	Leave expense	18,171	7,024
	Total	**798,704**	**622,671**

		30 June 2019 Birr'000	30 June 2018 Birr'000
14	**Other operating expenses**		

Insurance	7,449	6,392
Repair and maintenance	14,652	12,524
Sundry Expenses	37,973	22,442
Professional Expenses	982	2,168
Occupancy Cost	140,146	104,085
Promotional and Related Expenses	49,952	29,481
Office Expenses	45,124	39,248
Employee Travel Expenses	19,323	14,300
Wages	32,858	22,006
Water	3,901	2,901
Bank	2,491	2,493
Bonus expense	-	-
Severence pay	7,639	6,212
Legal	-	-
Impairment on non-current assets	-	-
Transport	2,461	1,776
Loss on disposal of assets	143	1,220
Amortization of lease	330	127
Total	**365,424**	**267,375**

	30 June 2019	30 June 2018
	Birr'000	Birr'000
15 Company income and deferred tax		

15 (a) Current income tax

Company income tax	**261,555**	**212,313**
Prior year (over)/ under provision	-	1,391
Deferred income tax/(credit) to profit or loss	(6,062)	(3,368)
Total charge to profit or loss	255,493	210,337
Tax (credit) on other comprehensive income	-	-
Total tax in statement of comprehensive income	**255,493**	**210,337**

15(b) Reconciliation of effective tax to statutory tax

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Profit before tax	1,001,346	938,042
Add : Disallowed expenses		

Entertainment	2,584	1,764
Donation	260	229
Penalty	-	229
Sponsorship	3,529	426
General Assembly	1,214	1,007
Management Meeting and Promotion	2,329	1,552
Severance Expense	7,990	6,212
Legal Case	83	-
10th Year Anniversary	4,735	-
Third Party Payment for Motor Vehicle	246	-
Adjustment for Inter branch Trans-action	69	-
Provision for Other Asset	7,666	-
Provision for loans and advances as per IFRs	155,802	21,741
Depreciation for accounting purpose	73,211	66,998
Amortization for accounting purpose	-	-
Total disallowable expenses	259,718	100,158
Less :		
Depreciation for tax purpose	80,958	73,573
Provision for loans and advances for tax as per NBE (80%)	60,155	76,827
Interest income taxed at source foreign	-	-
Dividend income taxed at source	6,572	5,038
Interest income taxed at source-NBE Bills	179,421	124,948
Interest income taxed at source-Local Deposit	62,107	40,218
Legal Provission taxed last year	-	115
Write back suspended Interest Taxed previous year	-	9,770
	389,215	**330,490**
Taxable profit	**871,850**	**707,710**
Current tax at 30%	**261,555**	**212,313**

15 (c)	**Current income tax liability**	**Birr'000**	**Birr'000**
	Balance at the beginning of the year	210,658	88,748
	Current year provision	261,555	212,313
	Prior year (over)/ under provision	-	
	WHT Notes utilised	250	264
	Payment during the year	210,658	90,139
	Balance at the end of the year	**261,305**	**210,658**

15(d) 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.

	30 June 2019 Birr'000	30 June 2018 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(7,840)	(13,902)
To be recovered within 12 months	-	-
Total	**(7,840)**	**(13,902)**

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

Deferred income tax assets/ (liabilities):	**" At 30 June 2018 "** **Birr'000**	**Credit/ (charge) to P/L** **Birr'000**	**Credit/ (charge) to equity** **Birr'000**	**30 June 2019** **Birr'000**
Property, plant and equipment	(21,980)	1,860	-	(20,120)
Provisions	-	-	-	-
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post employment benefit obligation	8,078	4,202	-	12,280
Total deferred tax assets/ (liabilities)	**(13,902)**	**6,062**	**-**	**(7,840)**

Deferred income tax assets/ (liabilities):	**" At 30 June 2017 "** **Birr'000**	**Credit/ (charge) to P/L** **Birr'000**	**Credit/ (charge) to equity** **Birr'000**	**" 30 June 2018 "** **Birr'000**
Property, plant and equipment	(22,756)	776	-	(21,980)
Provisions	-	-	-	-
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post employment benefit obligation	5,486	2,592	-	8,078
Total deferred tax assets/(liabilities)	**(17,270)**	**3,368**	**-**	**(13,902)**

	30 June 2019 Birr'000	30 June 2018 Birr'000
16 Cash and cash equivalents		
Cash in hand	1,503,709	1,887,786
Balance held with National Bank of Ethiopia	1,823,781	1,844,840
Deposits with local banks	502,237	789,022

Deposits with foreign banks	1,291,200	1,287,479
Total	**5,120,927**	**5,809,127**

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	3,750,927	4,809,127
Non-Current	1,370,000	1,000,000
Total	**5,120,927**	**5,809,127**

Cash and cash equivalents in the statement of cash flows are the same as on the statement of financial position as the Bank had no bank overdrafts at the end of each reporting period.

17	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Loans and advances to customers		
Agriculture	226,738	206,345
Industry	1,486,938	1,051,846
Domestic trade and services	4,681,099	2,907,290
Export	3,860,093	2,687,653
Import	1,060,543	595,749
Construction	1,858,505	1,016,354
Transport and communication	250,135	264,832
Hotel and tourism	957,211	681,631
Mining, power and water resources	-	-
Microfinance institution	42,535	42,514
Mortgage loan staff	588,619	352,801
Mortgage Loan Customer	333,748	70,415
Personal Loan Staff	87,061	59,873
Emergency staff loans	123,533	103,319
Consumer loans	39,332	19,867
	-	-
Gross amount	**15,596,090**	**10,060,489**
Less: Impairment allowance (note 15a)	-	
- Specific impairment	-	(24,885)
- Collective impairment	-	(67,031)
- Stage 1 12 month ECL	(127,455)	-
- Stage 2 Life time ECL	(11,819)	-
- Stage 3 Life time ECL	(132,982)	-
Total Loss allowance	**(272,257)**	**(91,916)**
Total carrying amount	**15,323,833**	**9,968,573**

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	10,420,207	6,736,302

Non-Current	4,903,627	3,232,271
Total	**15,323,833**	**9,968,573**

17(a) Impairment allowance on loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and receivables as at 01 July 2018 is as folllows:

	30 June 2018	Stage 1 12 month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Day 1 change in ECL allowance
Specific allowance for impairment	24,885	-	-	-	-24,885
Collective allowance for impairment	67,031	-	-	-	-67,031
Stage 1 12 month ECL	-	60,285	-	-	60,285
Stage 2 Life time ECL	-	-	5,023	-	5,023
Stage 3 Life time ECL	-	-	-	63,803	63,803
Total	**91,917**	**60,285**	**5,023**	**63,803**	**37,194**

A reconciliation of the allowance for impairment losses for loans and receivables as at 30 June 2019 is as folllows:

	As at 01 July 2018	Charge for the year	As at 30 June 2019
Stage 1 12 month ECL	60,285	67,170	127,455
Stage 2 Life time ECL	5,023	6,797	11,819
Stage 3 Life time ECL	63,803	69,179	132,982
Total	**129,111**	**143,146**	**272,257**

A reconciliation of the allowance for impairment losses for loans and receivables by class as at 30 June 2018 is as follows:

Specific allowance for impairment	**As at 30 June 2017** **Birr'000**	**Charge for the year** **Birr'000**	**As at 30 June 2018** **Birr'000**
Transport and communication	59	(59)	-
Housing and construction loans	749	(160)	590
Hotel and tourism loans	30,416	(29,707)	710
Export loans	12,659	4,466	17,125
Domestic trade loans	7,282	(5,145)	2,137
Mortgage	494	(494)	-
Staff loans	337	(337)	-
Industry	853	1,986	2,839
Import	1,660	(1,660)	-
Agriculture	-	1,485	1,485

Total	**54,509**	**(29,624)**	**24,885**

Collective allowance for impairment	**As at 30 June 2017**	**Charge for the year**	**As at 30 June 2018**
	Birr'000	**Birr'000**	**Birr'000**
Agriculture	7,097	(4,235)	2,863
Industry	2,748	789	3,537
Domestic Trade & Service	35,864	(14,217)	21,647
Export	45,198	(24,948)	20,251
Import	5,158	(1,022)	4,136
Construction	13,512	(6,199)	7,314
Transport and Communication	3,917	(762)	3,154
Hotel and Toursim	6,923	(3,392)	3,532
Microfinance	-	-	-
Mines, Power,and Water	-	-	-
Mortgage Loan Customer	80	(44)	36
Mortgage Loan Staff	157	197	354
Personal and Consumer - Customer	22	48	70
Personal and Consumer - Staff	53	(22)	31
Emergency Staff Loan	125	(15)	110
Total	**120,855**	**(53,823)**	**67,031**

18	**Interest Free Financing**	**30 June 2019**	**30 June 2018**
		Birr'000	**Birr'000**
	Murahabah Financing- Agriculture	100,505	87,399
	Murahabah Financing- Construction	251,261	122,620
	Murahabah Financing- Agriculture Merchandize	-	-
	Murahabah Financing- Industry	330,038	185,195
	Murahabah Financing- DTS	648,393	408,963
	Murahabah Financing- Export	-	-
	Interest Free Export Facility Financing	208,425	481,990
	Murahabah Financing- Import	158,561	169,402
	Murahabah financing	-	-
	Murahabah Financing- Hotel and Tourism	18,177	11,796
	Murahabah Financing- Transport and Communication	107,117	118,309
	Muruhabah Financing- Consumer and Personal	-	-
		-	-
	Gross amount	**1,822,477**	**1,585,674**
	Profit receivable from Murubaha Financing	399,065	262,420

Less: Deferred profit	(277,377)	(185,291)
Less: Impairment allowance (note 15a)		
- Specific impairment	-	(30,944)
- Collective impairment	-	(10,566)
- Stage 1 12 month ECL	(7,930)	
- Stage 2 Life time ECL	(7,165)	
- Stage 3 Life time ECL	(38,331)	
Total Loss allowance	**(53,427)**	**(41,509)**
Total carrying amount	**1,890,738**	**1,621,293**

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	1,247,887	1,206,889
Non-Current	642,851	414,404
Total	**1,890,738**	**1,621,293**

18(a) Impairment allowance on Interest Free Financing

A reconciliation of the allowance for impairment losses for Interest free financing as at 01 July 2018 is as folllows:

	30 June 2018	Stage 1 12 month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Day 1 change in impairment allowance
Specific allowance for impairment	30,944	-	-	-	(-30,944)
Collective allowance for impairment	10,566	-	-	-	(-10,566)
Stage 1 12 month ECL	-	9,005	-	-	9,005
Stage 2 Life time ECL	-	-	2,291	-	2,291
Stage 3 Life time ECL	-	-	-	32,356	32,356
Total	**41,509**	**9,005**	**2,291**	**32,356**	**2,142**

A reconciliation of the allowance for impairment losses for Interest free financing as at 30 June 2019 is as folllows:

	As at 01 July 2018	Charge for the year	As at 30 June 2019
Stage 1 12 month ECL	9,005	(1,075)	7,930
Stage 2 Life time ECL	2,291	4,875	7,165
Stage 3 Life time ECL	32,356	5,975	38,331
Total	**43,651**	**9,775**	**53,427**

A reconciliation of the allowance for impairment losses for interest free financing as at 30 june 2018 by class is as follows:

Specific allowance for impairment	As at 30 June 2017 Birr'000	Charge for the year Birr'000	As at 30 June 2018 Birr'000
Murahabah Financing- Export	21,627	2,408	24,035
Murahabah Financing- Import	-	6,909	6,909
Total	**21,627**	**9,317.08**	**30,944**

Collective allowance for impairment	As at 30 June 2017 Birr'000	Charge for the year Birr'000	As at 30 June 2018 Birr'000
Murubaha Financing -Agriculture	1,120	(20)	1,100
Murubaha Financing- Industry	452	57	509
Murubaha Financing -DTS	3,407	(880)	2,527
Murubaha Financing -Export	8,427	(4,647)	3,779
Murubaha Financing- Import	1,022	(392)	630
Murubaha Financing - Construction	1,077	(404)	674
Murubaha Financing - Transport and Comm.	1,721	(428)	1,293
Murubaha Financing- Hotel and Toursim	156	(102)	54
Murubaha Financing -Personal	6	(6)	
Total	**17,388**	**(6,823)**	**10,566**

	30 June 2019 Birr'000	30 June 2018 Birr'000
19 Investment securities		
Financial assets at fair value through OCI		
Financial assets at fair value through OCI (2018-AFS)	95,478	68,705
	95,478	**68,705**
Financial assets at amortized cost (2018-Loans and Receivables)		
NBE Bills	7,062,601	4,845,419
Ethiopian Government bonds	10,400	10,398
Gross amount	**7,073,001**	**4,855,817**
Less individual allowance for impairment	-	-
Carrying amount	**7,073,001**	**4,855,817**

The equity investments made by the Bank is as summarised below:

The 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.

	As at 30 June 2019			
Investment	**Number of shares '000**	**Net changes in equity investments at FVOCI**	**Balance of FVOCI**	**Percentage shareholding (at FV)**
Oromia Insurance S.C	12,500	5,179	17,679	18.5%
Gutu Oromia Business S.C	3,250	-	3,250	3.4%
Elemtu Integrated Dairy Industry S.C	10,000	(10,000)	-	0.0%
Elemo Kiltu House Buliding	500	268	768	0.8%
OIB ODA Real Estate PLC	10,000	(4,205)	5,795	6.1%
Ethio Switch S.C	12,002	14,800	26,802	28.1%
TPO Printing and Publishing S.C	15,000	-	15,000	15.7%
Tsehay Industry S.C	15,526	7,565	23,091	24.2%
Sheger Micro Finance	3,200	(107)	3,093	3.2%
Grand Total	**81,978**	**13,500**	**95,478**	**100%**

	As at 30 June 2018	As at 01 July 2018		
Investment	**Number of shares '000**	**FV day 1 adjustment gain/(loss)**	**Balance of FVOCI**	**Percentage shareholding (at FV)**
Oromia Insurance S.C	12,500	7,269	19,769	22.0%
Gutu Oromia Business S.C	3,250	-	3,250	3.6%
Elemtu Integrated Dairy Industry S.C	10,000	(10,000)	-	0.0%
Elemo Kiltu House Buliding	500	47	547	0.6%
OIB ODA Real Estate PLC	10,000	(3,413)	6,587	7.3%
Ethio Switch S.C	11,370	(2,118)	9,252	10.3%
TPO Printing and Publishing S.C	7,500	-	7,500	8.3%
Tsehay Industry S.C	12,572	29,361	41,933	46.7%
Sheger Micro Finance	1,013	-	1,013	1.1%
Grand Total	**68,705**	**21,147**	**89,852**	**100%**

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

Investment	Balance of FVOCI 01 July 2018	Balance of FVOCI 30 June 2019	Net changes in equity investments during the year
Oromia Insurance S.C	19,769	17,679	(2,090)
Gutu Oromia Business S.C	3,250	3,250	-
Elemtu Integrated Dairy Industry S.C	-	-	-
Elemo Kiltu House Buliding	547	768	221
OIB ODA Real Estate PLC	6,587	5,795	(792)
Ethio Switch S.C	9,252	26,802	17,549
TPO Printing and Publishing S.C	7,500	15,000	7,500
Tsehay Industry S.C	41,933	23,091	(18,842)
Sheger Micro Finance	1,013	3,093	2,080
Grand Total	**89,852**	**95,478**	**5,626**

Additional investment during the year

Investment	30 June 2018	Addition for the year	30 June 2019
Oromia Insurance S.C	12,500	-	12,500
Gutu Oromia Business S.C	3,250	-	3,250
Elemtu Integrated Dairy Industry S.C	10,000	-	10,000
Elemo Kiltu House Buliding	500	-	500
OIB ODA Real Estate PLC	10,000	-	10,000
Ethio Switch S.C	11,370	632	12,002
TPO Printing and Publishing S.C	7,500	7,500	15,000
Tsehay Industry S.C	12,572	2,954	15,526
Sheger Micro Finance	1,013	2,187	3,200
Grand Total	**68,705**	**13,273**	**81,978**

	As at 30 June 2018	
Investment	**Number of shares '000**	**Percentage shareholding**
Oromia Insurance S.C	12,500	18.2%
Gutu Oromia Business S.C	3,250	4.7%

Elemtu Integrated Dairy Industry S.C	10,000	14.6%
Elemo Kiltu House Buliding	500	0.7%
OIB ODA Real Estate PLC	10,000	14.6%
Ethio Switch S.C	11,370	16.5%
TPO Printing and Publishing S.C	7,500	10.9%
Tsehay Industry S.C	12,572	18.3%
Sheger Micro Finance	1,013	1.5%
Grand Total	**68,705**	**100%**

Maturity analysis	**30 June 2019**	**30 June 2018**
	Birr'000	**Birr'000**
Current	837,369	392,628
Non-Current	6,235,632	4,463,189
Total	**7,073,001**	**4,855,817**

	30 June 2019	**30 June 2018**
	Birr'000	**Birr'000**
20 Other assets		
Financial assets		
Accounts receivables	(1,198)	508
Uncleared effects- Local	57,806	43,465
Uncleared effects-Foreign	70,484	60,427
Accrued interest receivable on Government Bonds	-	-
Accrued interest receivable on NBE Bills	-	-
Accrued receivables-Share companies	-	-
Miscellaneous	97,429	66,577
Guarantee for Overseas Employment Agencies	619,653	65,549
Gross amount	**844,174**	**236,526**
Less: Specific impairment allowance (note 17a)	-	(18,235)
ECL for other financial asset	(6,637)	-
Carrying amount	**837,537**	**218,291**
Non-financial assets		
Prepayments	443,305	437,750

Prepaid staff asset	156,751	92,697
Prepaid staff loans	-	-
Branches under opening	8,771	30,947
Inventory	20,382	11,790
Total	**629,209**	**573,184**
Gross amount	**1,466,746**	**791,474**
Maturity analysis	**30 June 2019**	**30 June 2018**
	Birr'000	**Birr'000**
Current	1,020,769	372,013
Non-Current	445,977	419,462
Total	**1,466,746**	**791,474**

20(a) Impairment allowance on other assets

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Balance at the beginning of the year	18,235	6,858
(Reversal)/charge for the year (note 10)	(18,235)	11,377
Balance at the end of the year	**-**	**18,235**

20(b) Inventory

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Fixed asset in store	-	-
Supplies stock account- IFB	-	-
Supplies stock account	20,382	11,790
	20,382	**11,790**

	Swift Software	Core Banking Software	Mobile and agent banking software	Total
	Birr'000	Birr'000	Birr'000	Birr'000

20	Intangible Assets				
	Cost:				
	As at 30 June 2018	**-**	**40,703**	**-**	**40,703**
	Acquisitions		1,002		1,002
	Internal development				-
	Transfer from property, plant and equipment				-
	As at 30 June 2019	**-**	**41,704**	**-**	**41,704**
	Accumulated Amortisation and Impairment Losses				
	As at 30 June 2018	**-**	**33,739**	**-**	**33,739**
	Amortisation for the year		4,409		4,409
	Impairment losses				-
	As at 30 June 2019	**-**	**38,148**	**-**	**38,148**

20 Intangible Assets (Contd)

Net book value				
As at 30 June 2018		6,964		6,964
As at 30 June 2019		3,556	-	3,556

	Property, plant and equipment	Buildings	Motor vehicles	Furniture and fittings	Computer and accessories	Office equipment	Construction in progress	Total
		Birr'000	Birr'000	Birr'000	Birr'000			Birr'000
21	Cost:							
	As at 30 June 2018	334,027	188,268	94,348	138,485	98,328	3,031	856,487
	Additions	101,228	301	18,247	61,761	17,629		199,166
	Disposals	-	-	-	-			-
	Reclassification	-	-	-	-			-
	As at 30 June 2019	**435,255**	**188,569**	**112,595**	**200,246**	**115,957**	**3,140**	**1,055,762**
	Accumulated depreciation							
	As at 1 July 2018	**18,401**	**73,530**	**28,589**	**51,001**	**42,375**	**-**	**213,896**
	Charge for the year	7,990	17,515	9,361	20,119	13,817	-	68,802
	Impairement	-	-	-	-	-		-
	Disposals	-	-	417	475	127	-	1,019
	As at 30 June 2019	**26,391**	**91,045**	**38,367**	**71,595**	**56,319**	**-**	**281,678**

Oromia International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

Net book value							
As at 01 July 2018	315,627	114,738	65,759	87,484	55,953	3,031	642,591
As at 30 June 2019	408,864	97,524	74,228	128,651	59,638	3,140	774,084

		30 June 2019 Birr'000	30 June 2018 Birr'000
22	**Non-current assets held for sale**		
	Balance at the beginning of the year	32,185	27,813
	Additional Repossessed collateral from the borrower for the year	-	6,860
	Transfer to property, plant and equipment	-	(507)
	Transfer from property, plant and equipment	-	-
	Disposals of Repossessesd collateral	(1,067)	(141)
	Disposals of property, plant and equipment	(176)	(1,839)
	Fair value gain/(loss) on assets held for sale	-	-
	Balance at the end of the year	**30,942**	**32,185**

Oromia International Bank S.C. took over collateral of some customers and these were recorded in the books as Assets classified as held for sale as the Bank had no intention to make use of the property for administrative use. Management initiated a plan to dispose of these assets to willing buyers and expects to have completed the transaction before the end of the next financial period.

These assets have been valued by in-house engineers responsible for collateral valuation using the market approach determined using Level 3 inputs.

There is no cumulative income or expenses in OCI relating to assets held for sale.

		30 June 2019 Birr'000	30 June 2018 Birr'000
23	**Deposits from customers**		
	Demand deposits	7,223,812	6,080,985
	Saving deposits	12,830,259	9,474,568
	Fixed Time deposits	2,380,112	1,358,185
	Foreign Currency Accounts	-	-
	Gross amount	**22,434,183**	**16,913,738**
	Maturity analysis	**30 June 2019**	**30 June 2018**
		Birr'000	**Birr'000**

Current	21,985,499	16,575,463
Non-Current	448,684	338,275
	22,434,183	**16,913,738**

		30 June 2019 Birr'000	30 June 2018 Birr'000
25	**Other liabilities**		
	Financial liabilities		
	TT payable	10,647	11,862
	CPO & Certified Cheques issued	237,678	234,787
	Account Payable Miscellaneous	27,376	17,574
	Income tax payable	5,575	4,316
	Tax payable on interest	7,176	4,984
	Pension payable	3,037	2,238
	Tax on capital gain	94	107
	VAT payable	51	137
	Witholding tax payable	1,308	1,136
	Stamp duty charges	3,416	1,313
	Exchange payable to NBE	8,950	8,030
	Accrued Interest On Fixed Time Deposit	-	-
	Audit fee	413	328
	Dividend Payable	36,601	49,531
	Letter of credit margin payables	642,689	523,770
	Hamish Jiddya Payable	8,722	6,274
	Charity Fund Payable	6,992	2,727
	Uncleared effects- Foreign	-	-
	Uncleared effects-Local	-	-
	Deferred Murabaha profit		
	Cost Sharing Payable	27	53
	Legal provisions	-	-
	Directors Share on Profit	1,511	894
		1,002,263	**870,061**
	Non-financial liabilities		
	Other provisions	-	-
	Accrued leave payable	55,547	41,771
	Deferred Income-rent	4,643	4,393
	Unearned income	30,667	32,456
	Bonus provision	74,402	78,105
		165,259	**156,725**
	Gross amount	**1,167,522**	**1,026,786**

25 Other liabilities (confirmed)

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	1,167,522	1,026,786
Non-Current	-	-
	1,167,522	**1,026,786**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Retirement benefit obligations		
Defined benefits liabilities:		
– Severance pay	40,934	26,925
Liability in the statement of financial position	**40,934**	**26,925**
Income statement charge included in personnel expenses:		
– Severance pay	7,058	5,858
– Long service awards		
Total defined benefit expenses	**7,058**	**5,858**
Remeasurements for:		
– Severance pay	6,951	2,779
	6,951	**2,779**

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

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	7,058	5,858
Non-Current	33,876	21,067
	40,934	26,925

Severance pay

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

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

		30 June 2019	30 June 2018
24	**Retirement benefit obligations (continued)**		
		Birr'000	**Birr'000**
A	**Liability recognised in the financial position**	**14,009**	**8,637**

		30 June 2019	30 June 2018
B	**Amount recognised in the profit or loss**	**Birr'000**	**Birr'000**
	Current service cost	4,214	3,195
	Interest cost	3,776	3,017
		7,990	**6,212**
C	**Amount recognised in other comprehensive income:**		
	Remeasurement (gains)/losses arising from changes in demographic assumptions	-	-
	Remeasurement (gains)/losses arising from changes in the economic assumptions	2,633	2,949
	Remeasurement (gains)/losses arising from experience	4,318	(170)
	Tax credit /(charge)		
		6,951	2,779

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

	30 June 2019	30 June 2018
	Birr'000	**Birr'000**
At the beginning of the year	26,925	18,288
Current service cost	4,214	3,195
Interest cost	3,776	3,017
Remeasurement (gains)/ losses	6,951	2,779
Benefits paid	(932)	(354)
At the end of the year	40,934	26,925

The significant actuarial assumptions were as follows:

		30 June 2019	30 June 2018
i)	**Financial Assumption Long term Average**		
		Birr'000	**Birr'000**
	Discount Rate (p.a)	11.25%	12.31%
	Long term Salary Increases(p.a)	12.00%	12.00%
	Inflation Rate	10.00%	10.00%

Net pre-retirement rate	-0.67%	0.28%

		30 June 2019 Birr'000	30 June 2018 Birr'000
27	**Ordinary share capital**		
	Authorised:		
	Ordinary shares of Birr 1000 each	3,000,000	3,000,000
	Issued and fully paid:		
	Ordinary shares of Birr 1000 each	2,385,981	1,606,949

28 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit after tax	745,853	727,705
Weighted average number of ordinary shares in issue	1,996,465	1 ,387,385
Basic & diluted earnings per share (Birr)	0.374	0.525

28 Earnings per share (Contd)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2019:nil and 30 June 2018: nil), hence the basic and diluted loss per share have the same value.

		30 June 2019 Birr'000	30 June 2018 Birr'000
29	**Retained earnings**		
	At the beginning of the year	383,710	173,760
	Profit/ (Loss) for the year	745,853	727,705
	Prior year (over)/ under provision	-	1,391
	Reversal of loans and IFB financing loss allowance recognized as per IAS 39	133,426	-
	Day one IFRS 9 transition adjustment for loans and IFB financing	(172,762)	-
	Reversal of other assets loss allowance recognized as per IAS 39	18,017	-

Day one IFRS 9 transition adjustment for other assets	(3,756)	-
Directors share on Profit	(1,511)	(894)
Transfer to legal reserve	(184,948)	(181,926)
Dividends paid	(54,276)	(39,443)
Dividends held in payable account	(18,737)	(27,370)
Dividend capitalised	(310,698)	(147,971)
Transfer to regulatory risk reserve	(41,351)	(121,540)
Transfer from regulatory risk reserve - Suspended interest	14,586	-
Transfer to regulatory risk re-serve- Provission other Assets	(16,008)	
Transfer from regulatory risk reserve for excess NBE pro-vissions no longer required on application of IFRS 9	121,540	-
	-	-
At the end of the year	613,086	383,710

	30 June 2019	30 June 2018
	Birr'000	Birr'000

30 Legal reserve

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.

	30 June 2019	30 June 2018
	Birr'000	Birr'000
At the beginning of the year	457,285	275,359
Transfer from profit or loss	184,948	181,926
At the end of the year	642,233	457,285

	30 June 2019	30 June 2018
	Birr'000	Birr'000
31 Regulatory risk reserve		
At the beginning of the year	145,605	33,835
Transfer to retained earnings for excess NBE provissions no longer required on application of IFRS 9	(121,540)	121,540
Transfer from retained earnings- write backed suspended Interest	41,351	-
Transfer to retained earnings	(14,586)	-

Transfer from retained earnings-Provission for Other Assets	16,008	
Adjustment of Regulatory risk reserve against loan account	-	(9,770)
At the end of the year	**66,838**	**145,605**

31 Regulatory risk reserve (Contd)

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia(NBE) to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the expected credit loss model.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the expected credit loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using expected credit loss model under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

		Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
32	**Cash generated from operating activities**			
	Profit before tax		1,001,346	938,042
	Adjustments for non-cash items:			
	Depreciation of property, plant and equipment	21	68,802	53,866
	Amortisation of intangible assets	20	4,409	13,132
	Gain/(Loss) on disposal of property, plant and equipment	21		
	Impairment on loans and advances	17	180,340	(83,448)
	Impairment on interest free financing	16	11,917	2,494
	Impairment losses on other assets	20	(11,598)	11,378
	Retirement benefit obligations	26	(6,951)	(2,779)
	Adjustment on De-Recognised Property, Plant and equipment		1,129	-
	Adjustment of Property, Plant and equipment		-	-
	Fair Value adjustment for equity investment	18	(13,500)	-
	Adjustment of Provision for Legal			
	Prior Period Adjustment			(9,770)
	Changes in working capital:			

-Decrease/ (Increase) in loans and advances to customers	17	(5,535,601)	(2,839,955)
-Decrease/ (Increase) in interest free financing	18	(281,362)	(565,376)
-Decrease/ (Increase) in other assets	20	(663,674)	(146,913)
-Decrease/ (Increase) in non current assets held for sale	20	1,243	(4,372)
-Increase/ (Decrease) in deposits from customers	23	5,520,445	5,482,191
-Increase/ (Decrease) in Interest Free customers' deposits	24	1,141,666	983,195
-Increase/ (Decrease) in Other liabilities	22	121,999	1,945
-Increase/ (Decrease) in Retirement benefit obligations	24	14,009	8,637
-Decrease/ (Increase) in Restricted Deposit	15	(370,000)	(320,000)
		1,184,620	**3,522,268**

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Proceeds on disposal	-	-
Net book value of property, plant and equipment disposed (Note 19)	-	-
Gain/(loss) on sale of property, plant and equipment	-	-

33 Related party transactions

Oromia International Bank S.C. is a wholly owned private financial institution. A number of transactions were entered into with related parties in the normal course of business. These are disclosed below:

31a Transactions with related parties

	30 June 2019 Birr'000	30 June 2018 Birr'000
Deposits	152,035	10,684
Loans	17,358	16,440
Total	**169,393**	**27,124**

31b Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2019

	30 June 2019 Birr'000	30 June 2018 Birr'000
Basic Salary (short term employee benefit)	5,802	5,608
Representation Allowance (short term employee benefit)	330	342
Provident fund (short term employee benefit)	804	722
Bonus (short term employee benefit)	707	1,418
Directors Allowance	1,008	607
Directors' Share on profit	1,511	894
Total	**10,162**	**9,590**

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

32 Contingent liabilities

32a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2019 is Birr 59,246,553 . No provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

32b 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:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Guarantees Issued and Outstanding	1,321,037	812,261
Commitments on Letter of Credit net of Margin Paid	455,292	361,294
Commitments on Letter of Credit net of Urbun Held	39,800	105,350
TCG Issued and Outstanding	44,171	43,055
"Loan Approved but not Disbursed and		
IFB Financing approved but not yet Financed"	1,618,896	841,079
Unutilized Overdraft and Other Facility	1,478,840	1,129,592
Undrawn IFB Export Facility Financing	944,539	678,260

Total	**5,902,575**	**3,970,891**

33 Commitments

	30 June 2019 Birr'000	30 June 2018 Birr'000
Share Subscribed but not paid	-	9,615
Capital projects	68,943	67,080
Total	**68,943**	**76,695**

34 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 the each lease period at market rate.

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
No later than 1 year	14,802	15,821
Later than 1 year and no later than 2 years	32,355	155,027
Later than 2 years but not later than 5 years	139,000	54,509
Total	**186,157**	**225,358**

35 Events after reporting period

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

37 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments . Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker is the person or Bank that allocates resources to and assesses the performance of the operating segments of an entity.

The Bank has determined the Board of Directors as its chief operating decision maker. All transactions between business segments are conducted on commercial terms basis with intra-segment revenue and costs being eliminated at Bank level.

Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance.

Information reported to the Bank's Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on products and services.

The accounting policies of the reportable segments are the same as the Bank's accounting policies described in note 2.

For management purposes, the Bank has been organised into two operating segments based on products and services, as follows:

1. Interest Free Banking- All Islamic banking products offered to customers are included under the Islamic Banking segment. These products inlcude Wadiah deposits, Amanah deposits and mudarabah investments.
2. Conventional Banking- The conventional banking segment comprises of corporate and commercial banking customers in various sectors which include agriculture, manufacturing, domestic trade, construction, hotel and tourism, microfinance institutions, mortgage loans and personal loans

37 Segment reporting (continued)

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are based on the Bank's internal pricing framework.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

Profit segments

At 30 June 2019

	Conventional Banking Birr "000	Interest Free Banking Banking Birr "000	Segment adjust-ments Birr "000	Bank Birr "000
Interest income	2,218,072	-	-	2,218,072
Income from Interest free financing and investment products	-	181,386	-	181,386
Interest expense	836,803			836,803
Distribution to depositors- Interest Free Banking Products		13		13
Net interest income and income from Interest Free Banking products net of distribution to depositors	**1,381,269**	**181,373**	**-**	**1,562,642**
Fee and commission income	591,682	62,522	-	654,204
Fee and commission expense	-	-	-	-
Net fees and commission income	591,682	62,522	-	654,204
Other operating income	177,460	181	-	177,641
Loan impairment charge	143,146	9,775	-	152,921
Impairment losses on other assets	2,881	-	-	2,881
Inter–segment revenues/expenses				
Net operating income	31,433	(9,594)	-	21,839
Armotisation of intangible assets	4,409	-	-	4,409

Depreciation of property and equipment	68,802	-	-	68,802
Personal and Other operating expenses	1,146,621	17,507		1,164,128
Segment Profit before tax	**784,552**	**216,794**		**1,001,346**
Income tax expense	190,455	65,038		255,493
Segment profit after tax	**594,097**	**151,756**		**745,853**
Assets				
"Additions to property and equipment"	199,166	-		199,166
"Additions to other intangible assets"	1,002	-		1,002
Total assets	**27,335,836**	**4,443,472**		**31,779,308**
Total liabilities	**23,842,837**	**4,223,890**		**28,066,727**

37 Segment reporting (continued)

At 30 June 2018

	Conventional Banking	Interest Free Banking Banking	Segment adjust-ments	Bank
	Birr "000	Birr "000	Birr "000	Birr "000
Interest income	1,505,568	-	-	1,505,568
Income from Interest free financing and investment products	-	136,825	-	136,825
Interest expense	543,432	-	-	543,432
Distribution to depositors- Interest Free Banking Products	-	166	-	166
Net interest income and income from Interest Free Banking products net of distribution to depositors	**962,136**	**136,659**	**-**	**1,098,795**
Fee and commission income	421,539	84,012	-	505,551
Fee and commission expense	-	-	-	-
Net fees and commission income	421,539	84,012	-	505,551
Other operating income	318,246	2,217	-	320,463
Loan impairment charge	8,971	9,374	-	18,345
Impairment losses on other assets	7,729	3,649	-	11,378
Inter–segment revenues/expenses	-	-	-	-
	-	-	-	-
Net operating income	301,547	(10,807)	-	290,740
Armotisation of intangible assets	13,132	-	-	13,132
Depreciation of property and equipment	53,866	-	-	53,866
Personal and Other operating expenses	874,845	15,201	-	890,046
	-	-	-	-

Segment Profit before tax	**743,379**	**194,663**	**-**	**938,042**
	-	-	-	-
Income tax expense	151,938	58,399	-	210,337
Segment profit after tax	**591,440**	**136,264**	**-**	**727,705**
Assets				
"Additions to property and				
equipment"	105,246	-	-	105,246
"Additions to other				
intangible assets"	8,467	-	-	8,467
Total assets	**20,514,270**	**3,282,462**	**-**	**23,796,732**
Total liabilities	**18,047,097**	**3,158,667**	**-**	**21,205,764**