

Oromia International Bank S.C.

Annual Report 2017/18





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.



Anniversary

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Content

Message from the Chairperson	5
Message from the President	11
Board of Directors' Report	17
Operational Performance Highlight	17
Financial performance	19
Resource Building	22
Interst Free Banking Performance	22
Corporate Governance	24
Future Plan	25
Changes in Financial Reporting Framework to IFRS	26
Audited Finicial Statment	32

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Going Green!



BOARD OF DIRECTORS



Obbo Gadisa Bultosa
Board Chairperson



Dr. Aynalem Megersa
Vice Chairperson



Dr. Firdissa Jebessa
Member



Obbo Damenu Tulu
Member



Obbo Didhaa Dirribaa
Member



Obbo Assegid Regassa
Member



Obbo Ajema Gondel
Member



Ambassador Aman Hassan
Member



Dr. Assefa Seme
Member



Obbo Birhanu Debela
Member



Obbo Fayera Abdissa
Member



Obbo Mulugeta Tujuba
Member



MESSAGE FROM THE BOARD OF DIRECTORS CHAIRPERSON

On behalf of the Board of Directors and myself, I am pleased to report the record high accomplishment of our Bank in the fiscal year 2017/18. I also congratulate our respected Shareholders, the Board of Directors, the Management, the entire staff and all stakeholders that Oromia International Bank S.C now turns 10 years all that decorated with continuous success; I would like to remark that – together with stakeholders – we aspire to commemorate our 10th anniversary over the coming few months of 2018/19 with events fittingly illuminating our journey over the decade.

As always we had been operating within the ever stiffer competition over fundamentals of banking business such as Deposit, Foreign Currency (FCY), Experienced Human Resource, and Branch Offices. However, we deployed prudent strategies and manoeuvres not only to keep the momentum but also to register shining performance in the just ended fiscal year. We also made a strong fight to acquire our market share that enables us seize a remarkable position that we reach on today. Indeed, the shortfall on export trade as a country, the recurrent power cut, internet access interruption especially in most regions due to instabilities were the main challenges we



faced in the year under review.

The 2017/18 fiscal year was a fortunate year for OIB that our Bank has registered an astonishing result for the benefit of its stakeholders. The Bank's Board of Directors and staff made relentless effort to bring about financial and operational success in the midst of the above mentioned tough environment.

During the financial year, OIB has generated a total income of Birr 2.47 billion showing a growth of 65% or Birr 970 million in comparison with the previous year same period. Our expense has reasonably grown to Birr 1.53 billion as we made hefty donations for displaced people but employee salary, interest expenses, and general administrative expense gradually continues to rise with the already broadened size of our Bank. As at June 30, 2018, our bank has registered a gross profit of Birr 938 million, which is up by 140% or Birr 547 million, relative to the previous fiscal year.

Esteemed shareholders, at this point, may I request you all to give a huge applaud to our staff and the Management at all levels and the board of directors who made persistent effort for this tremendous results to happen!

OIB's total deposit stood at Birr 19.93 billion which is up by 48%; Loans and Advances plus IFB Financing showed a growth of 41% compared to the previous year. The total asset of OIB stood at about Birr 23.8 billion and the paid up capital heightened to Birr 1.61 billion from Birr 1.17 billion of the previous fiscal year. It is still in a slow move to fulfil the subscribed amount of Birr 3.00 billion by the end of 2019/20 fiscal year that I would like to urge the respected shareholders to finalize the payment of their subscribed shares.

Worth noting that our reports of this fiscal year including the above-highlighted key performance indicators are based on the International Financial Reporting Standard (IFRS) that our Bank, as one of the companies designated as 'significant public interest entities', have adopted for reporting its financial statements in line with the Government's intention to follow globally accepted accounting standards. As a result, looking at and comparing the trend over the last three fiscal years, you may notice that some figures related to selected performance indicators (such as earning per share, return on asset and return on capital) have been adjusted

merely owing to the accounting policies adopted as at 30 June 2018 and applied to the opening balance sheet (1 July 2016) and the comparative period (30 June 2017) and thus should be treated accordingly.

With regard to branch expansion, OIB has opened a total of 248 branches adding 25 new branches during the fiscal year. Our agents are 200 that we exhaustively worked on recruitment of some 166 new agents in the just ended fiscal year. Our mobile banking users have grown to 36,144 while our Oro –card holders reached over 69,618 as at June 30, 2018. Our project to improve efficiency of the prevailing Core Banking System is underway and will go operational in full-scale in due course. This, we believe, will play a bigger role in enhancing efficiency in our service delivery.

OIB also continued to contribute its part in creating job opportunities for citizens that it recruited 200 employees that made the total number of staff of the Bank grow to 3,226 during the reporting year. Different trainings (both local and overseas) were also given for over 5,000 employees in a move to improve their capacities and enhance their productivity, in which some staff participated on more than one training.

In the fiscal year under report, our Bank has acquired additional properties as we have owned a four storey building in Adama town and two branch offices in condominium buildings at Senga Tera site and one branch office at Crown site. We will continue to exert the maximum effort possible to realize our goals for building Head Quarters on the already acquired land at Goma Kuteba (in Finfinne) and multipurpose training centre on the land acquired at Gelan (in Oromia) as well as our request to acquire land at Senga Tera (the so called 'future financial hub') from the Finfinne City Administration.

More than ever, OIB has continued discharging its corporate social responsibility to respond to humanitarian crisis caused by natural and man-made disasters. To this end, in addition to donations through a range of public and private organizations, in initiatives such as Grand Ethiopian Renaissance Dam bond addressing development needs of public concern, our Bank had donated Birr 20 million (Birr 15 million from the Bank and Birr five million by staffs from their salary) to the displaced citizen during the fiscal year.



As these respected shareholders may recall, we had conducted the election of the Board of Directors in 2017/18 fiscal year, complying with the Directives of the National Bank of Ethiopia(NBE) from establishing Nomination Committee to conducting the election process even though the newly elected directors had to commence their term as of April 2018 mainly owing to delay occurred from factors beyond control.

The Board of Directors has made several meetings with the aim to making closer follow up of the Bank's operation and passed various decision as well as provided directions as per the policies and procedures of the Bank.

Sincerely, it would not have been possible to attain this record high result without the strong ties and commitment of our employees and persevering leadership. On behalf of the Board of Directors and myself, I would like to express my deepest appreciation and gratitude to all Management and the employees of OIB for their commitment and relentless effort to make OIB register such a remarkable result. I am also indebted to the Executive Management team for their wise leadership; the Sharia Advisory Committee for their advisory role in the implementation of the IFB operations that our IFB wing is meeting its intended target.

My heartfelt appreciation goes to the NBE for its continued guidance and support. I am also grateful to other government organizations such as Document Authentication and Registraton Agency 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. TAY & Co. also deserves my acknowledgement for the professionalism it has displayed in rendering audit and related services to our Bank.

Finally, I assure our respected shareholders and all stakeholders that we will make every effort to explore more expedient route that leads our Bank to its vision to be the bank of your first choice.

Thank you all!

Gadisa Bultosa Bery
Chairperson, Board of Directors

November 3, 2018



SENIOR MANAGEMENT MEMBERS



Obbo Abie Sano
President



Obbo Mergia Diriba
Chief Operating Officer



Obbo Teferi Mekonnen
VP-Corporate Support



Obbo Wolde Bulto
VP-Credit & International
Banking



Obbo Alemayehu Demise
VP-Branch Banking



Obbo Geleta Bekuma
VP-Information Technology



Obbo Neway Megersa
Director-Strategic Mgt &
Business Dev't



Obbo Nuri Hussen
Director-IFB Services



Obbo Berhanu Edae
Chief-Internal Audit



Obbo Ketema Mengesha
Chief-Risk Management &
Compliance



Obbo Worku Lemma
Advisor to the President



Obbo Dagnachew Negash
Director-Legal Services



Obbo Jote Kenate
Director-Accounting & Treasury



Obbo Faysel Yassin
Director-Int'l Banking



Obbo Gelana Leta
Director-Human Resource Mgt



Obbo Tesfaye Dheressa
Director-Credit Mgt



Obbo Tatek Negassa
Director-IT System Operations



Obbo Fati Haji
Director-IT Modernization Office



Obbo Endale Foye
Director-Operations & District Support



Obbo Birhanu Gonfa
Director-Procurement & Facility Mgt

Future Head Quarters





MESSAGE FROM THE PRESIDENT

On behalf of all Management and employees of Oromia International Bank S.C. (OIB), I am extremely delighted to graciously welcome our respected shareholders, distinguished guests, and invited stakeholders to this shining 9th Annual Ordinary General Meeting of Shareholders and to address all interested readers of this report.

During the financial year 2017/18, OIB had been operating in the environment characterized by the blend of opportunities and challenges. The Ethiopian economy was resilient and still rated as among top few fast-growing economies. The local demand for goods and services remained stronger. The number of fresh university graduates joining the labour market had been significantly increasing and providing excess supply of trainable human resource. The sustaining fast growth in our economy though slower than before, the strong local demand for goods and services and the good supply of fresh graduates can be mentioned among the opportunities for the domestic banking business in general and for OIB in particular.

On the downside, however, we had been challenged by many local and global problems, such as weak demand for our export produces like coffee that led to very low unit prices, global general inflationary situation that might have triggered imported inflation which played its



part, combined with local conditions, for increased domestic inflation rate that significantly crossed the desired single digit mark throughout the year, the re-emergence of drought, the sudden monetary measures like retro-active credit ceiling on most sectors, foreign exchange surrendering at below cost and raising minimum saving interest rate without equivalent adjustment for NBE-Bill and political turmoil that had been causing frequent business interruption of our branches and of our customers, etc. The competition among local banks on foreign exchange generation was a real cutthroat since the foreign exchange shortage was further exacerbated by the stagnating national export performance coupled with the new surrendering policy of the regulator. Despite the above-mentioned challenges, the banking industry has continued aggressively expanding its branches that in turn fueled the cost of branch offices either for new or renewing contract of the existing branches as well as the cost of retaining or getting experienced human resources. The significant increase in the number of bank branches and many other factors had further stiffened the competition of banks on mobilization of the core resource—deposit more than any other time.

Moreover, almost all banks affected by the new monetary policy, including ours, were obliged to revise their terms and tariffs upwards in a bid to cover for the impacts of new changes. But, I strongly believe that the medium to long term sustainability of these high costs of banking services like lending rate demands for critical scrutiny and proactive remedy or responsible policy action before it is too late.

Dear respected shareholders and stakeholders, despite the challenging global and domestic business environment, OIB was able to further strengthen its strong financial position and performance during the ended financial year. Our risk-bearing capacity remained robust. Compared to June 30, 2017, OIB's market share has been enhanced in all parameters such as deposit mobilized, outstanding loans and advances plus IFB financing, total assets, total capital, paid up capital, foreign currency, revenue growth, expense management and profit.

Although the challenges in the business environment appears to outweigh the opportunities as listed above, OIB had managed to record very great results because we had taken appropriate proactive strategic and tactical measures that helped us to reduce the impacts of the challenges and maximize the benefits we could get from the available opportunities. The Management was very much focused on OIB's available strategic advantages throughout the financial year. All staffs were committed to sustain OIB's competitiveness in all aspects. The Board had discharged its supervisory oversight role very well.

Above all, the teamwork of these three key players had borne the desired fruit.

We had also been accomplishing the following activities that supported to register great results:

- * Significantly expanded our service outlets to get closer to our customers and seize new target markets—our branches reached 248, our 49 ATMs are operational and we had recruited 200 Oro-agents for our agent banking service.
- * Our e-banking services such as Oro-card, Oro-cash and Oro-agent were in full swing and we were able to recruit 36,144 mobile banking users and our Oro-card customers reached 69,618.
- * We had further heavily invested in information technologies in the area of building new state-of-the-art data center and disaster recovery sites, IT infrastructure and network enhancement.
- * We were also finalizing, updating and modernizing the Bank's different existing and new IT systems including CBS.
- * The total staff of OIB stood at 3,266 with some 200 new additions during the year (without mentioning the 1,369 jobs created through outsourced non-clerical posts).
- * In line with its strong commitment to groom its own human resources, the Bank had significantly invested in various local and overseas training of its employees. Over 5,000 employees had taken different trainings.
- * During the reporting year, OIB had also been working hard on Implementation of International Financial Reporting Standard (IFRS) and successfully accomplished it as a first-time adopter making our transition date July 1, 2016 for which the current financial report under consideration is the first one complying to requirements of our local law and regulation in this regard. These standards would ensure better transparency, understandability, and comparability of financial reports.
- * Nevertheless, due to differences in bases of treatment and classification between IFRS and our old accounting system some previous comparative figures were changed which the reader is advised to understand in reading our financial reports that were presented in detail in the external auditors report found at the end of this report.

During the reporting year, OIB registered shining results in almost all parameters albeit tough local economic and political atmosphere during the year. The Bank's total asset climbed to about Birr 24 billion while the Deposit balance had magnificently grown by 48% to about Birr 20 billion, Loans plus IFB financing grew by 41% reaching



Birr 11.65 billion, OIB have managed to generate total foreign currency (FCY) of USD 314.2 million during the fiscal year exhibiting an extraordinary growth of 43% given the stagnation in growth of national export earnings.

The excellent performance in securing the two key result determining resources—deposit mobilization and FCY generation, had helped OIB to register yet again a huge growth in revenue by 65% to reach all-time high figure of Birr 2.47 billion while the growth in total expense was contained to only 38% ending up to Birr 1.53 billion mainly driven by interest and operating expenses. As anyone can see from the huge leap in revenue by 65% while the expense was contained to only 38%, I would like to proudly report to all stakeholders with a sense of great satisfaction that the resultant difference between the two is a new record extraordinary growth in profit before tax of 140% by which the profit for the year had jumped to Birr 938 million. This demonstrates the resilient performance capacity of the Bank within many deterring factors in the local and global business environment.

These pleasing results would not have been achieved without the strong support and loyalty of our customers for which we would always remain grateful. I would also like to thank our shareholders for the continuing faith in our business model and the trust in us. Our Board of Directors would also deserve my great appreciation for their unreserved support and strategic leadership. Moreover, I would like to extend my heartfelt thanks to all our staff and management members for their unfailing commitment and demonstrated passion for ensuring the excellence of OIB. My best regards to the National Bank of Ethiopia for its constructive supervisory supports which was complementary for our prudence. My final appreciation goes to our External Auditor (TAY & Co.), Ethswitch, ECX, Ethio Telecom, Ethiopian Electric Power Corporation, Domestic Banks, Our Correspondent Banks and all stakeholders for their partnership, continued support and cooperation.

Finally, I would like to renew our firm commitment that we, at OIB, will always strive tirelessly to ensure excellence in all our services with a bigger goal in our hearts to realize our vision -To Become the Bank of Your First Choice!

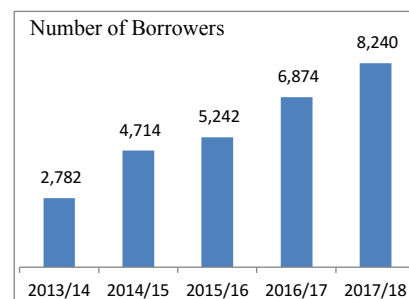
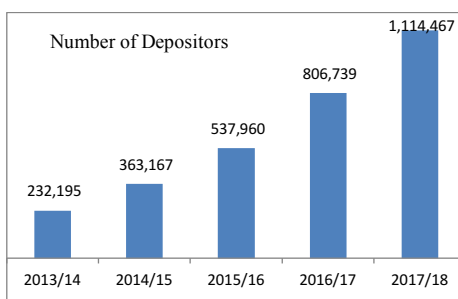
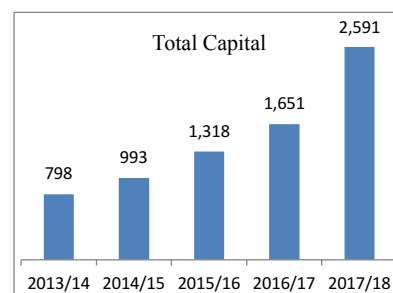
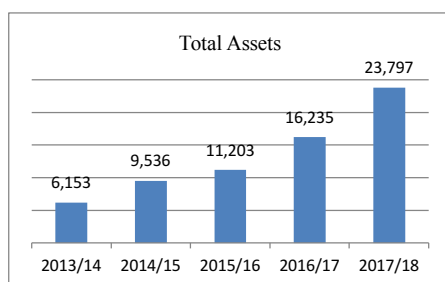
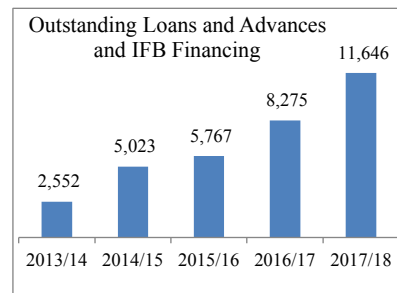
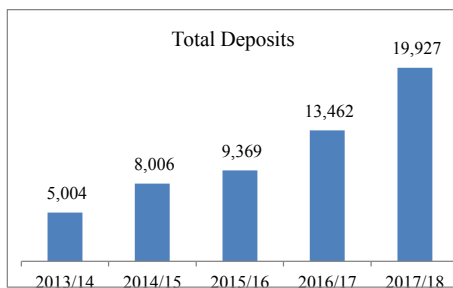
I thank you!

Abie Sano
President, OIB



KEY PERFORMANCE INDICATORS, AS OF JUNE 30, 2018

3,266 Permanent Staff	▲7%	23.8B Asset	▲47%	2.47B Revenue	▲65%
4,635 Total Employment	▲15%	19.93B Deposit	▲48%	1.53B Expense	▲38%
497 Service Outlet	▲73%	11.65B Loan and IFB Financing	▲41%	938M Profit before tax	▲140%
248 Branches	▲11%	4.85B NBE Bill	▲40%	210M Income Tax	▲126%
1.11M Depositors	▲38%	314.2M FCY	▲43%	728M Net Profit	▲145%
105,762 E-channel Customers	▲321%	2.59B Total Capital	▲60%	525 Average Earning Per share	▲84%
8,240 Borrowers	▲20%	1.61 Paid Up Capital	▲38%	277 Average dividend per share	▲67%



Income		Expense		Gross Profit	
2,468	2017/18	1,530		938	
1,498	2016/17	1,108		391	
1,164	2015/16	839		325	
849	2014/15	555		294	
546	2013/14	340		205	



Board of Directors' Report

1. OPERATIONAL PERFORMANCE HIGHLIGHT

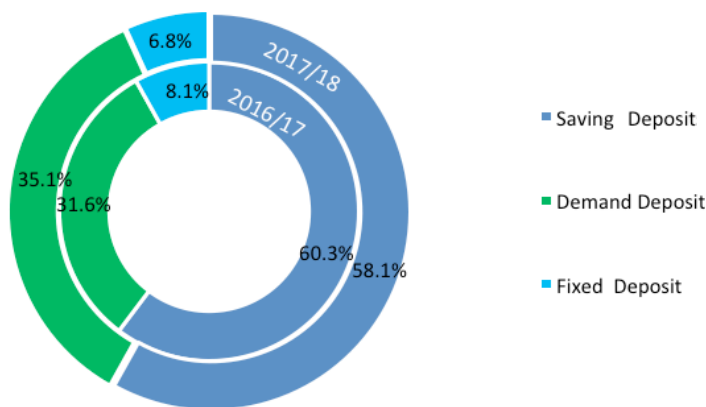
Even though the national economy saw a decline in its growth trend in the just ended budget year mostly driven by poor performance of export sector and tax collection on one hand, and industry's fierce competition on the other, OIB registered commendable growth in almost all parameters during the reporting year.

The recorded growth was due to relentless 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 over all directions of the business of the Bank.

1.1 Deposit Mobilization

Withstanding the growing competition among the banks especially in deposit mobilization, OIB continues to register such a commendable growth in deposit performance. The total deposit of the Bank reached Birr 19.93 billion as at June 30, 2018, showing 48% growth over the last year same period. From June 30, 2017, it has shown a net increment of Birr 6.46 billion which is the highest ever increment of the deposit of the Bank.

Chart 1: Deposit composition trend



As the deposit structure of the Bank indicates, demand deposit showed the largest growth rate by 64% during the year under review. It stood at Birr 6.99 billion, while Saving Deposit showed the second largest deposit growth by 43% and reached Birr 11.58 billion. Fixed time Deposit growth was, however, purposefully maintained at relatively lower rate of 24% due to its higher cost..



Table 1: Break down of deposit by type

Deposit by type	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Savings Deposits	11,577	8,116	42.6	58.1	60.3
Demand Deposits	6,992	4,252	64.4	35.1	31.6
Fixed Deposits	1,358	1,094	24.2	6.8	8.1
Total	19,927	13,462	48.0	100.0	100.0

The average size of the Bank's deposit is about Birr 16,630 per depositor that reflects high public confidence and assuring 'Peoples' Bank' motto of our Bank.

1.2 Loans and Advances Including IFB Financing

The total gross outstanding Loans and Advances plus IFB Financing of the Bank reached Birr 11.65 billion as at June 30, 2018, exhibiting a growth of 41% over the position attained at the end of the preceding year.

OIB's Loans and Advances plus IFB Financing have reached all sectors of the economy despite difference on the share to the sectors. Domestic Trade and Services (DTS) took the highest share of 28.5% of loan portfolio followed by Export 27.2% share, Industry 10.6%, Construction 9.8%, Import 6.6%, Hotel and Tourism 6.0% and Mortgage loan 3.6% share on the closing date. A further look at the horizontal movement in the sectorial portfolio share clearly demonstrates the impact of the Policy Directive issued by the regulator during the fiscal year that set limit on the Bank's aggregate Loans and Advances plus IFB Financing and Investment in most sectors for the fiscal year except Export and Industry which were left unlimited; hence Export and Industry registered unmatched growth rate which resulted in significant percentage points gain in portfolio share for both sectors while most of the capped sectors including DTS lost their share.

Table 2: Loans and Advances plus IFB financing by Economic Sector

Loan By Economic Sector	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Domestic trade and services	3,316	2,681	23.7	28.5	32.4
Export	3,170	1,656	91.4	27.2	20.0
Industry	1,237	459	169.4	10.6	5.5
Construction	1,139	954	19.4	9.8	11.5
Import	765	827	(7.5)	6.6	10.0
Hotel and tourism	693	633	9.5	6.0	7.7
Mortgage loan	423	238	77.9	3.6	2.9
Transport and communication	383	487	(21.3)	3.3	5.9
Agriculture	294	220	33.4	2.5	2.7
Emergency staff loans	103	68	52.9	0.9	0.8
Consumer and Personal	80	45	75.9	0.7	0.5
Microfinance institution	43	7	542.2	0.4	0.1
Mining, power and water resources	-	0.4	(100.0)	-	0.0
Total	11,646	8,275	40.7	100	100



1.3 Foreign Currency Generation

International banking services continues to be important source of the Bank's income. In the just ended financial year, OIB was able to generate a total of 314 million USD which grew by 43% when compared to last year similar period. The Export earning stood at 208 million USD while inward transfers were 98 million USD. Forex purchase and forex dealing all together generated 8 million dollars.

Table 3: Breakdown of Foreign currency generation

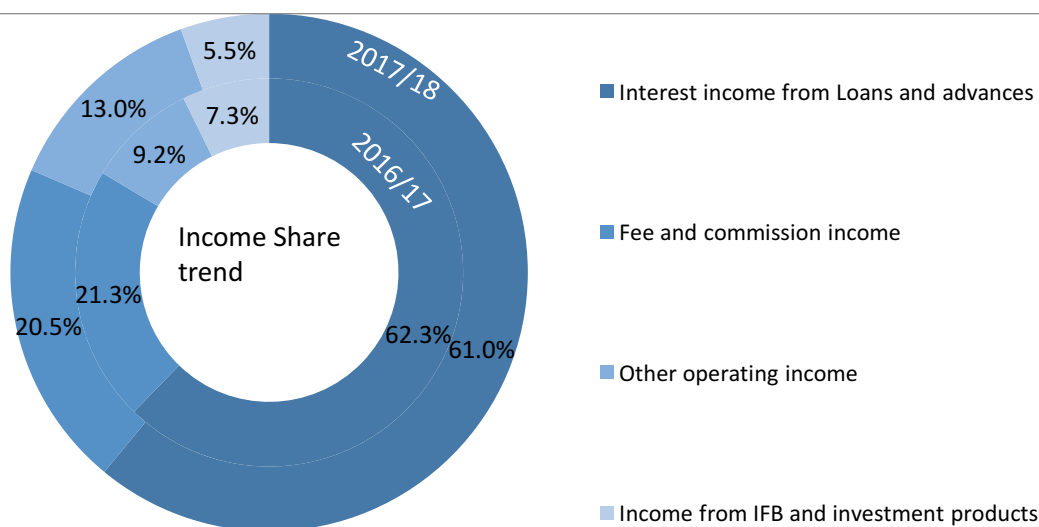
Foreign Currency Generation	Amount in USD Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Export	208	153	36.3	66.2	69.4
Incoming transfer	98	62	59.1	31.3	28.1
Purchase	7	4	57.1	2.1	1.9
Forex dealing	1	1	4.8	0.4	0.5
Total	314	220	42.9	100.0	100.0

2. FINANCIAL PERFORMANCE

2.1 Income

The total revenue earned by the Bank from various sources stood at Birr 2.47 billion showing an increment of Birr 970 million or a growth of 65% relative to the level achieved in 2016/17 fiscal year

Chart 2: Income composition for the financial year ended June 30, 2018





2.2 Expense

In 2017/18 fiscal year, the total expense of OIB increased to Birr 1.53 billion, exhibiting 38% rise from the previous year's level of Birr 1.11 billion. This increase in expense was mainly due to personnel expenses, interest expenses and other operating expenses.

Table 4: Composition of Expense by type as of June 2018

Expense by Type	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Personnel expenses	623	426	46.3	40.7	38.4
Interest expense	543	329	65.3	35.5	29.7
Other operating expenses	267	219	22.2	17.5	19.8
Depreciation and impairment of property, plant and equipment	54	57	(5.5)	3.5	5.1
Loan impairment charge	18	66	(72.1)	1.2	5.9
Amortisation of intangible assets	13	9	47.3	0.9	0.8
Impairment losses on other assets	11	2	456.3	0.7	0.2
Distribution to depositors- IFB Products	0	1	(81.6)	0.0	0.1
Total	1,530	1,108	38.2	100.0	100.0

2.3 Profit

Gross profit hit high record and reached Birr 938 million, up by 140% compared to last year same period level of Birr 391 million. OIB has managed to earn a net profit of Birr 727.7 million after holding provision of Birr 210.3 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 4.7% for the financial year 2017/18, while return on capital (ROC) expressed as the ratio of profit before tax to average capital is 43.8%. 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 29.5% for the year ended June 30, 2018. Likewise, earning per share of the Bank (net profit divided by average number of shares outstanding) is Birr 525 indicating a single share with par value of Birr one thousand earned a return of Birr 525 on average. .

Table5: Financial Performance indicator for 2017/18

s/no	Performance indicators	2017/18	2016/17	Abs.var	Growth
1	Return on Asset (ROA)	4.7%	2.8%	1.9%	67.9
2	Return on Capital (ROC)	43.8%	26.3%	17.5%	66.5
3	Net Profit Margin	29.5%	19.9%	9.6%	48.2
4	Average Earning Per Share	525	285	240	84.2
5	Average Dividend Per Share	277	166	111	66.9



2.5 Distribution of Net Profit

Oromia International Bank has secured net profit of Birr 727.7 million after income tax provision of Birr 210.3 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 profit after tax (Birr 181.8 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 incurred loss model required by IFRS under IAS 39. When 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 provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the Retained Earnings account to a regulatory risk reserve.
- If prudential provision 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 Retained Earning account.

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

The negative balance of the beginning Retained Earning is due to change in recognition method as a result of transition to IFRS. The beginning balance of the Retained Earning as per the Generally Accepted Accounting Principle was Birr 214.8 million while beginning Retained Earning recognized as per the IFRS was Birr 173.8 million resulting in a negative balance of Birr 41 million.

Thus, the Board of Directors requests the General Assembly to approve distribution of Birr 383.7 million to the shareholders.

Table 6: Retained Earnings of 2017/18

S/No	Particulars	amount in "000"
1	Beginning Retained Earning as per IFRS	(41,025)
2	Profit for the year	727,705
3	Transfer to legal reserve	(181,926)
4	Transfer to regulatory risk reserve	(121,540)
5	Directors share of profit	(1,372)
6	Profit tax (over)/under provision	1,391
	Closing Retained Earning	383,233



3. RESOURCE BUILDING

3.1 Human Resources

It is crystal clear that the secret behind the success of the Bank is the quality of its human resources, from the very top to the bottommost recruits. To enrich their skills and strengthen their capabilities through providing various trainings, the Bank invested 2% of its planned recurrent expenditure on employee training and development during the fiscal year.

OIB made 200 net recruitments in just the ended fiscal year and the Bank's staff strength reached 3,266 as at June 30, 2018

3.2 Information Technology

Furthering its competitive edge in state-of-the-art information technology, OIB is significantly investing on its IT infrastructures and systems. Accordingly, OIB has been working hard to finalize the different projects commissioned to modernize or upgrade different IT systems in use by its core operations and back office functions and also introduced new systems that ensure efficiency of its operations and competitiveness of its services. Our fully-equipped state-of-the art data centre has also gone operational while we are finalizing network and disaster recovery center upgrading.

Since recently, OIB has been leveraging on technological developments to drive product and service innovation, improve operational efficiency and foster business growth. The Bank has been reinforcing its investments in Electronic banking channels to further increase the number and options of its services outlets such as Card Banking, mobile banking, agency banking and internet banking. As at June 30, 2018, OIB has deployed 49 ATM machines and it has 69,618 Oro card users while the number of Oro cash (mobile banking) users reached 36,144. The Bank also recruited 200 Oro-Agents across the country.

4.1 IFB Fund Mobilization

During the reporting period ended June 30, 2018, the total IFB window deposit reached Birr 3.0 billion by showing increment of 48% from the last year similar period balance. Even though, the IFB products and/or services are newly pioneered IFB business is growing from year to year. Thus, the IFB deposit of the Bank constituted 15.12% of the consolidated corporate deposit portfolio compared with 15.08% share of last year performance showing marginal progression.

Table 7: IFB Deposit breakdown by type --

IFB deposit By Type	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Wadi'ah deposits	2,102	1,358	54.8	69.8	66.9
Amana deposits	911	644	41.4	30.2	31.7
Mudharaba deposits	0	28	(99.1)	0.0	1.4
Total	3,013	2,030	48.4	100.0	100.0

3.3 Expansion of Branches

In a bid to getting closer to our customers and further enhancing accessibility of financial services to the society and reaching out new markets have necessitated further expansion of our branch outlets in the just ended fiscal year on top of expanding other alternative services outlets mentioned elsewhere. We opened additional 25 new branches in the year under review and our branches reached 248 as at June 30, 2018.

4. INTEREST FREE BANKING (IFB) PERFORMANCE

In this section OIB's IFB window financial and operational performance is separately presented even though it was already included in the corporate figures and presented in detail in the External Auditor's Report part in line with principles of IFB services Sharia compliance which is attested by the Sharia Advisory Committee (SAC) of the Bank.

OIB is a pioneer in the Ethiopian banking industry in introducing IFB products and/or services tailored to suit IFB customers' needs. This can be a big opportunity for the Bank to take the first mover advantage. As a result, as it can be seen from the progress on performance and customers' feedback, OIB has shown a remarkable year-on-year growth in most parameters in line with satisfying the needs of IFB customers. Currently, the Bank has expanded its operation in more than 242 branches and engaging better experienced employees in the industry mainly through provision of trainings. In view of this, the Bank had managed to introduce more products than any other competitors and still working harder for meeting the existing IFB customers' needs and attracting the potential ones.



4.2 IFB Financing

The total IFB Financing availed to different economic sectors has reached over Birr 1.59 billion during the fiscal year ended June 30, 2018. The IFB financing in the year has shown a notable growth of 50% compared to the last year performance though the amount is still low as compared to the fund mobilized which needs further improvement in the upcoming period.

At the end of the reporting period, IFB financing outstanding balance has reached 13.6% of the total corporate consolidated Loans and Advances plus IFB financing from its 12.8% of last year showing a positive progression.

Table 8: Composition of IFB financing by sector

IFB Financing By Economic Sector	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Interest Free Export Facility	482	314	53.6	30.4	29.7
Domestic Trade And Services	409	284	43.9	25.8	26.9
Industry	185	66	181.4	11.7	6.2
Import	169	155	9.6	10.7	14.7
Construction	123	85	44.8	7.7	8.0
Transport and Communication	118	97	21.6	7.5	9.2
Agriculture	87	38	130.0	5.5	3.6
Hotel and Tourism	12	14	(12.8)	0.7	1.3
Consumer And Personal Financing	-	3	-	-	0.3
Total	1,586	1,055	50.3	100.0	100.0

4.3 IFB Foreign Currency Generation

During the reviewed financial year, the IFB window has generated a total foreign currency of USD 48.41 million

demonstrating a growth of 34.3% from last year similar period USD 36.04 million. This is 15.4% of aggregate corporate total FCY generation.

4.4 IFB Income

The IFB window has generated a total income of Birr 223 million during the financial year 2017/18 showing a growth of 42% from last year amount of Birr 157 mil-

lion. Out of the total corporate consolidated income, IFB income constitutes 9% in which income from Murabaha financing took a big share of 61.3% followed by fee and commission income 37.7% and other operating income 1% showing promising opportunities for improvement.

Table 9: Composition of IFB Income by type for the period ended June 2018

IFB Income	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Income from Murahabah Financing	137	109	25.6	61.3	69.5
Fee and commission income	84	48	76.3	37.7	30.4
Other operating income	2	0.1	1,688.0	1.0	0.1
Total	223	157	42.3	100.0	100.0



4.5 IFB Expenses

During the period under review, the expense of IFB window reached Birr 28 million showing 21% annual growth. Personnel expenses and other operating expenses constituted 53.5% of the total IFB expenses followed by loan impairment charge: 33.0%, impairment losses on other assets: 12.9% and distribution to depositors-IFB products: 0.6%.

Table 10: Composition of IFB expense by type as of June 30, 2018

IFB Expense	Amount in Birr Million		Growth	Share	
	2017/18	2016/17		2017/18	2016/17
Personnel expenses and other operating Expense	15	10	51.8	53.5	42.5
Loan impairment charge	9	11	(17.5)	33.0	48.2
Impairment losses on other assets	4	1	184.6	12.9	5.4
Distribution to depositors- IFB Products	0.2	1	(81.6)	0.6	3.8
Total	28	24	20.5	100.0	100.0

4.6 IFB Profit

During the financial year 2017/18, IFB window has generated profit of Birr 194.7 million demonstrating a significant growth of 46.2% from last year level of Birr 133.2 million. This contributes 20.8% to the corporate profit of the Bank.

4.7 Expansion of IFB Window and Customer Base

Currently, OIB is providing full-fledged IFB products and/or services at its 242 branches. On top of this, IFB customer base is significantly increasing from time to time in which it has reached 248,614 at the end of June 2018 from its last year customer base of 167,451 as of June 2017 registering over 48.5% growth. This can be a clear indication that the customers have big trust on OIB's IFB services for which we are also highly committed offering the products that best fits our esteemed customers' banking needs.

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 fulfilment 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 Deputy 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 Sub-Committees

* 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.

5.5 Directors' Allowance

The directors are entitled to monthly allowance of Birr 4,000.00 as well as a maximum of annual remuneration of Birr 100,000.00 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 the NBE after checking fulfilment 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.

5.8 External Auditors

TAY & Co. Chartered Certified Accountants (UK) and Authorized Auditors (Ethiopia) are OIB's auditors nominated by the General Assembly of Shareholders and Approved by the NBE.

6. FUTURE PLAN

OIB was established with the mission of strong dedication to empower the 'Missing Middle' by giving priority to small and medium enterprises (SMEs). The Bank believes that SMEs are the most dynamic and innovative segment for sustainable banking business with broader base. Banks consider lending to SMEs as a high risk, administratively costly, and do not meet banks' credit requirements such as collateral and proper financial statement which are not always available. Notwithstanding, OIB in-

tends to be the gateway to the missing middle, serving them with all financial services and loans and financing to SMEs while observing regulatory requirements. In order to do so, OIB will enhance working with government, public and private investors, business owners and local communities to unlock the potential for greater agricultural productivity, alternative energy, and greater global market access and job creation.

OIB will be further resilient to any challenges, continue registering more history through coming closer to our customers with better services by always putting at fore our mission of establishment-reaching the unbanked and ultimately achieve our vision '*To Become The Bank of Your First Choice*'. To realize its vision, OIB is also striving to provide up-to-date banking services through employing state-of-the-art banking technologies and developing well trained and competent staff. Accordingly, the Bank has introduced E-banking services branded as 'Oro Electronic Banking' which comprises Oro-cash (Mobile banking), Oro card (ATM and POS), Oro Agent that provides banking services through OIB Agents and will soon launch Oro-click (Internet banking) services. The Bank has been working on expanding its products and services towards meeting the heterogeneous customers' needs through convenient and round-the-clock services. In order to serve customers at their premises, OIB will also continue with accessing its bank services to the society at large by opening branches and sub-branches closer and closer to the vicinity of the customers, installing and increasing the number of ATM and cardholders, mobile and internet users. Besides, in an attempt to reach unbanked society through agent banking, the Bank has been recruiting and increasing the number of Oro Agents which will be assisted deposit mobilization effort and enables to increase the number of customers/account holders.

The Bank has engaged a team on IT infrastructure and system upgrading which is believed to bring about fast and prompt banking operation and curbs the recurrent system interruption.

The Board of Directors and Managements of the Bank intensively working on fund mobilization, market share and other operational areas amidst fierce competition we witness in the industry, today. Most of all, OIB will give special focus on foreign currency generation which is becoming the major challenge to the industry in general, due to several international and local factors.

To further sustain the Bank's success, the challenges and problems encountered during the 2017/18 FY have been identified. To overcome the challenges and problems encountered, the Bank has developed the five years strategic plan in order to expand its banking service outreaches, strengthening the development and launching of new products, strengthening the resource mobilization effort, expanding the customer base, developing



the banking technology, improving the good governance, human resource development and image building, expanding the Bank's branches outlets based on feasibility studies, etc.

The Bank is also working to undertake the construction of future headquarters complex at financial hub of the city the process of which has taken longer time than desired due to several reasons the latest and significant one of which was the size of the plot of land obliged to acquire additional pieces of land whose merger took undesirably long time after all of which the previously completed design work shall be revised significantly. Now, however, the design work has got the first consent of the municipality as an important milestone and our consultant are working on their final design expected to be completed soon ,in the mean time we are also preparing for construction tender.We are very near and committed to commence the construction during succeeding fiscal year.

We are, however, very much pleased to inform our entire shareholders that Oromia Regional State has taken our request for plot of land very positively and approved to grant us 15,000 sq. m at the most strategic location in Gelan Town of Oromia Special Zone for construction of the intended special Training and Convention Center which we are very much optimistic that we shall commence construction right away upon receiving the land. This land will undoubtedly significantly boost the value of our bank apart from giving the huge intended benefits. Besides, certain preconditions are being fulfilled to get lands at regional and zonal towns for branch offices.

7. CHANGES IN FINANCIAL REPORTING FRAMEWORK TO IFRS

The House of People's Representatives of Ethiopia has enacted Financial Reporting (IFRS) Proclamation No. 847/2014 on the 5th of December 2014 to establish a sound, transparent and understandable financial reporting system which would be applicable to entities in both private and public sectors. Following the financial reporting proclamation, Regulation No. 332/2014 was issued on the 14th of January 2015 by the Council of Ministers and established the Accounting and Auditing Board of Ethiopia (AABE) by defining the powers and duties of the Board. Accordingly, AABE has prepared a road map for implementing IFRS in Ethiopia and instructed all stakeholders so

as to implement the IFRS in line with the road map. As per the road map high public interest entities such as banks shall produce IFRS compliant report by June 30, 2018.

Hence, Oromia International Bank s.c. (OIB) has prepared its financial reports as per IFRS requirements by taking July 01, 2016 as the transition date. Accordingly; the opening balance sheet as of June 30, 2016 and all financial reports and disclosures of the comparative year as of June 30, 2017 and the current financial year as of June 30, 2018 have been prepared as per IFRS as first time adopter.

Events of the Bank held during the year



Shareholders Meeting



Management Meeting



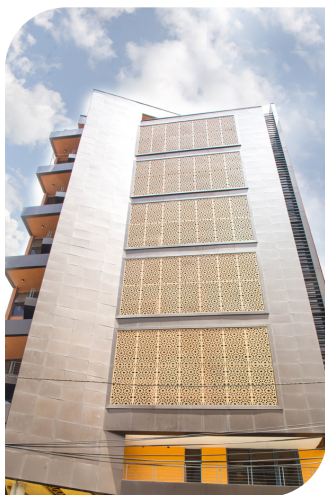
Session With OIB Key Stakeholders



Projects Financed



Top Water Bottling Factory



Apartment Building @ Bole



Hotel Building @ Kamisse

The cashier's Payment Order must be presented within six months of date		ኦሮሚያ ኢንተርናሽናል ባንክ አ.ማ. OROMIA INTERNATIONAL BANK S.C.	CASHIR'S PAYMENT ORDER (C.P.O)
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			AUTHORIZED SIGNATURES

OIB Discharged its Corporate Social Responsibility



Oromia International Bank S.C

Sharia Advisory Committee (SAC) Statement for the Fiscal Year Ended June 30, 2018

Dear Messrs/Shareholders of the Oromia International Bank (OIB),

Tracking to the Oromia International Bank S.C Corporate Governance Framework and its provisions associated to Interest Free Banking Window, and in accordance with Accounting and Auditing Organization for Islamic Financial Institutions Sharia Standard and the Bank's Sharia 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 comparable to other banking services in Oromia International Bank (S.C), irrespective of race, religion or company.

We are very glad when we are honored to announce that Oromia International Bank through its IFBW has able to mobilize deposit of **Birr 3.0 billion**, generated FCY of **USD48.4 million** from Export and earned profit before tax of Birr **194.7 million** from IFB business during the budget year ended 30 June 2018.

Thus, we hope and anticipate that IFBW will continue to contribute more by upholding similar Sharia compliance dedication, implementations and applications without undermining the ever ending quest of customers and by addressing banking the unbanked, serving the missing middle and accommodating all those who are far from banks due to their uncompromised belief.

As Sharia Committee of the Bank, we have given our highest dedication to ensure best quality and demonstrated commitment to Sharia compliance in the products, process, documentations, marketing, IT systems and other related Sharia compliant products and services by the Bank during the fiscal year. Besides its advisory and sharia compliance assurance services on the regular banking businesses, the Sharia Committee also supports on the development of other Sharia based products and services initiated and attend awareness creation programs to address questions may be raised by the Ummah at large. We have reviewed the principles and the contracts relating to the



Sheik Hajji Ebrahim Tufa
SAC Chairperson



Dr Jeilan Geleta Mami
Vice SAC Chairperson



Dr Mohammad Kamal Tilmo
SAC Member



Sheik Nuradin Abda Alo
SAC Member



Sheik Abdulaziz Mohammad Said
SAC Member



transactions and applications introduced by the OIB during the year ended 30 June 2018. We have also conducted our review to form an opinion as to whether the Bank has complied with Sharia Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the bank conducts its business in accordance with Sharia Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Sharia Rules and Principles.

In our opinion:

- a. The contracts, transactions and dealings entered into by the Bank during the year ended 30 June 2018 that we have reviewed are in compliance with the Sharia Rules and Principles;
- b. The profits distribution and loss allocation to the investment accounts complies with the principle adopted according to the Sharia rules and principles.
- c. All amounts devolved to the Bank from sources or realized from sources like penalties or by means that do not comply with the Sharia rules and principles were not incorporated in the Bank's revenues and are placed and reported separately for charity purposes.
- d. 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.

Finally, the Sharia Advisory Committee takes this opportunity to express its thanks to the Board of Directors and the Bank's management 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 Jeilan Geleta Mami
Vice SAC Chairperson

Dr Mohammad Kamal Tilmo
SAC Member

Sheik Nuradin Abda Alo
SAC Member

Sheik Abdulaziz Mohammad Said
SAC Member