ANNUAL REPORT 2019

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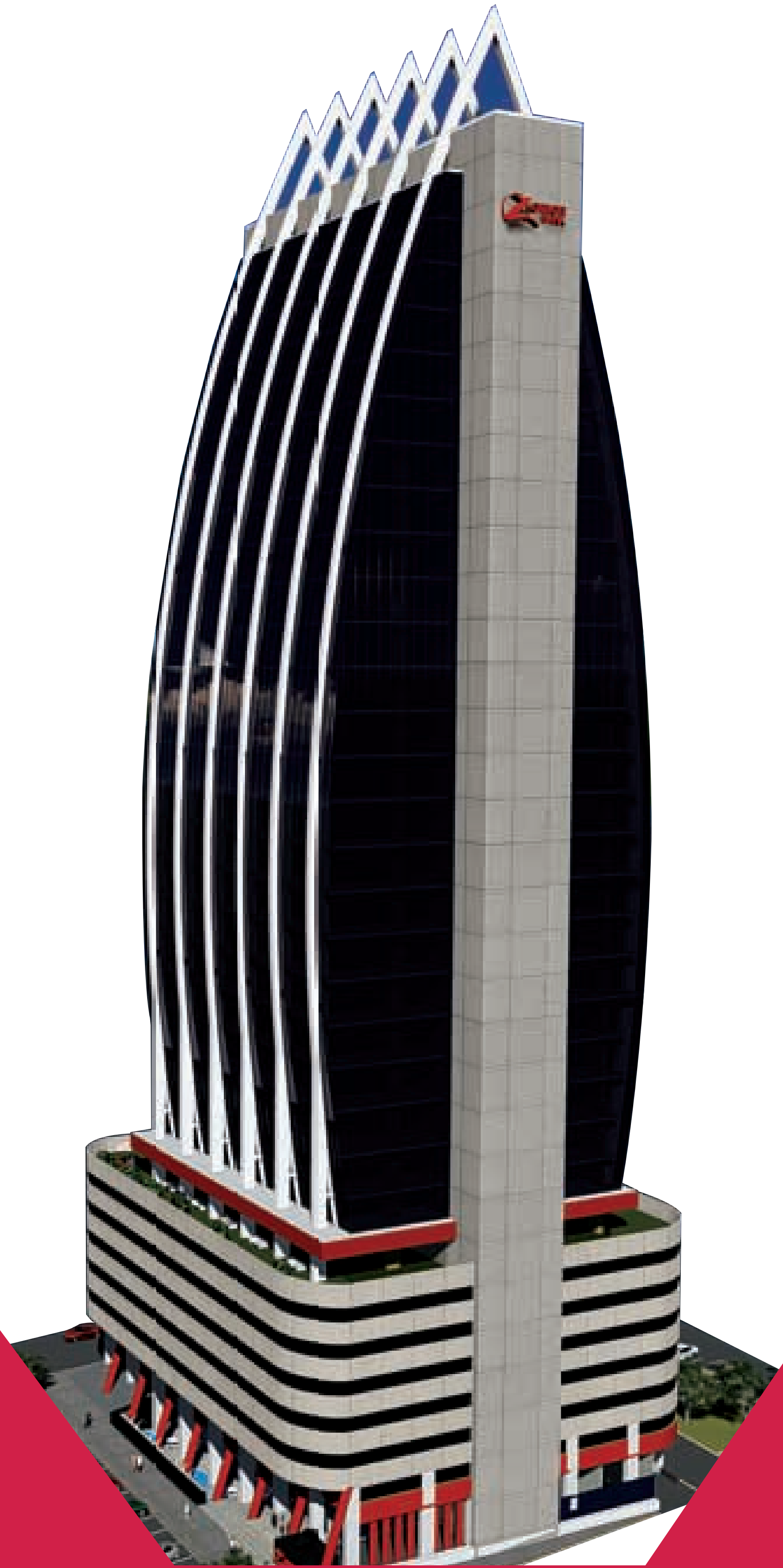
Zemen
BANK

...LOCAL KNOWLEDGE...
INTERNATIONAL STANDARDS!



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VISION

To be "Ethiopia's Five-Star Bank".

Mission:

To deliver our clients the most distinctive banking experience in Ethiopia through a mix of local Know-how and world-class standards.

To ensure for our staff an engaging, rewarding, and attractive work environment alongside a best-in-industry compensation scheme.

To provide our shareholders satisfactory returns on a sustainable basis

Our value Include:

Upholding the highest standards, being progressive and innovative

BOARD OF DIRECTORS

Prof. Abebe Dinku (Dr.-Ing).
Board Chairman

Dr. Theodros Atlabachew
Board Deputy Chairman

Amare Habe
Board Director

AddisAlem Kedir
Board Director

Mikre Ayalew
Board Director

Bezuwork Mamo
Board Director

Prof. Emana Getu
Board Director

Mieraf Shewaye
Board Director

Abebe Chekole
Board Director

SENIOR MANAGEMENT

Dereje Zebene
President / CEO

Amha Tadesse
Vice President-Information Technology

Meseret Wondim
Vice President-Corporate Resources Managment

Firehiwot Birke
Vice President-Customer Service

Solomon Mamo
Vice President-Operations

Kassahun Ayalew
Director-Corporate & Institutional Banking Department

Dereje Miheretu
Director – Credit Department

Tewahido Tafessa
Director-Knowledge and Innovation Department

Biniyam Abraham
Director-International Banking Department

Bayush Berhanu
Director-Multichannel Banking Department

Elias Kinfegebriel
Director-Human Resource Department

Kassahun Menawi
Director-Engineering Department

Lemma Alemayehu
Director Finance Department

Taye Nigatu
Director-Facilities Managment Department

Tesfaye Salilew
Director Infastructure & Channel Managment Department

Aklilu Sisay
Director- Private and Business Banking Department

Haileyesus Mezgebu
Director-IT Project Department

Phylipos Mitiku
Director-core Banking & Software Development Department

Adugna Mekonnen
Director-Risk and Compliance Managment Department

Yohannes Getachew
Director-Internal Audit Department

Birhanu Beyene
Director Legal Counsellor

CHAIRMAN'S STATEMENT

Year ended 30 June 2019

Dear Shareholders,

On behalf of the Board of Directors and myself, I am pleased to present the financial statements of Zemen Bank S.C. to our esteemed shareholders for the year ended June 30, 2019.

Since the second half of 2018, the World economic outlook indicates that global economic activity slowed notably affecting major economies. However, the macroeconomic development in Ethiopia during the 2018/19 financial year has resulted in better performance than the previous year. Subsequently, the Ethiopian economy has grown by 9.2% in the concluded fiscal year having a 1.5 percentage point increase compared to the year 2017/18.

Although the country has been experiencing economic growth, the overall macroeconomic imbalances remain very challenging. Surge in external debt, inflation, widening of trade deficit mainly due to poor export performance, government budget deficit, and exchange rate instability are the major obstacles that we have witnessed and confronted during the year.

In spite of those challenges, the year 2018/19 was the year of better achievement for our Bank in all major aspects. We have continued to strive hard to realize our vision through revamping the underlying strength and resilience of the Bank. As a result, we have crossed the half – a - billion birr gross profit line for the first time in the history of the Bank which encourages us to exert our knowledge and energy for more successes and benefits to our esteemed shareholders in the years to come.

It is with great pleasure to report that our revenue grew by 39% while deposits and loans and advances grew by 13% and 50%, respectively, when compared with the previous year performance. Earnings per share stood at 39.8% and non-performing loans dropped to 2.78%. Multichannel banking service was extended through point of sale (POS) machines for the first time to give customers a different experience. Core banking system was upgraded to next generation technology to match the highest industry standards and bring efficiency and security. Our operations are fully supported by automated Anti-Money Laundering solution. In addition, Zemen became the first bank to comply payment card industry – Data Security Standard and Personal Identification Number (PCI-DSS/PIN).

These encouraging results were derived from our dedicated services that include among others, moderate branch expansion strategy, customer focused service delivery, effective cost management and smooth working relationships between the Board of Directors, Management and Employees of the Bank.

During the year under review, Zemen Bank continued to moderately expand its service outlets in Addis Ababa and selected regional administrative cities. We are happy to report that the total number of branches and Kiosk banking centers have reached forty three outlets.

The Bank's headquarter building construction project has reached 47% completion rate and expected to be completed within the year 2019/20.

For the year ahead: For some time to come, the nationwide economic uncertainty is expected to remain high with continuous macroeconomic imbalances. However, we expect the Government to implement the new home grown economic reforms initiatives that aimed at correcting the imbalances, contain inflation and improve the country's balance of payment and other structural and sectoral reforms.

With the planned economic reforms and positive outlook, Zemen Bank will continue to expand moderately, modernize its digital banking platform including Mobile and Internet Banking and other investments in the areas of Information Technology to improve the Bank's competitiveness. Besides, we set out plan to craft our ten-year road map and five-year strategic plan which is expected to transform our engagement in the sector and become one of the major forces in the market and deliver competitive and sustainable return for the years to come.

Esteemed shareholders!

In the years to come, even if the unpredictable global economic and domestic economic challenges are expected to be our main challenges, nevertheless, we shall continue to strengthen our commitment in delivering exceptional customer, increase our physical and virtual accessibility using digital financial technology and improve our productivity in all our engagements.

Finally, on behalf of the Board of Directors and myself, I would like to extend my earnest gratitude to our esteemed customers, shareholders, the National Bank of Ethiopia, the entire Zemen family, and other stakeholders for their continued support, contributions, trust and confidence in our Bank's business journey. I sincerely believe that the commitment demonstrated thus far will continue in the years to come.

Thank you
Abebe Dinku, Prof. (Dr.-Ing)

PERSONAL BANKING

Personal Banking

As a Zemen Bank Personal Banking customer, you will earn interest rate of 7% computed daily.
To qualify, a minimum monthly balance of Birr 5,000 is required.

33.69% AVERAGE ANNUAL EARNINGS PER SHARE FOR THE PAST 5 YEARS

71.2M BIRR WITHDRAWN FROM ATMS EVERY MONTH

9,362 REGI STERED INTERNET BANKING USER

$371M IN FOREX INFLOWS

2.56B LOANS TO CUSTOMERS

1.21B DOORSTEP BANKING TRANSACTIONS PER YEAR

14.6B Total Asset

94 BANKS NUMBER OF WORLDWIDE CORRESPONDENT BANK RELATIONS

49% LOAN INCREASE FROM PREVIOUS YEAR

86% GROSS PROFIT GROWTH

22,000 EMPLOYEES USING PAYROLL SERVICES

SHAREHOLDERS' MEETING (24 November 2018)

PRESTIGE BANKING

Prestige Banking

Prestige Banking Customers are allocated a Personal Banking Representative and earn 7.25% on their savings. To qualify, the minimum monthly balance is Birr 100,000.

DIRECTORS' REPORT

Fiscal Year 2018/19

Zemen Bank's Board of Directors is pleased to present the 2018/19 Annual Report to its esteemed shareholders, clients, and partners. In what follows, we present an overview of our overall results during the just completed fiscal year and outline briefly our plans for the period ahead.

Financial Performance

During the 2018/19 FY operation, Zemen Bank continued to accelerate its resource mobilization and expansion of credit activities which registered exceptionally satisfactory results. Despite challenging political and economic situations, the Bank has achieved its revenue and profits reaching their highest levels.

The overall economy has grown by 9.2 percent. Nevertheless, the Banking sector faced various challenges; the major being shortage of foreign exchange caused mainly by declining of export performance. During the concluded fiscal year, official records show that exports stood at USD 2.67 billion meeting only 67 Percent of targets set by the government. Despite this challenge Zemen Bank was able to mobilize USD 371 million from export, international transfers and foreign direct investment.

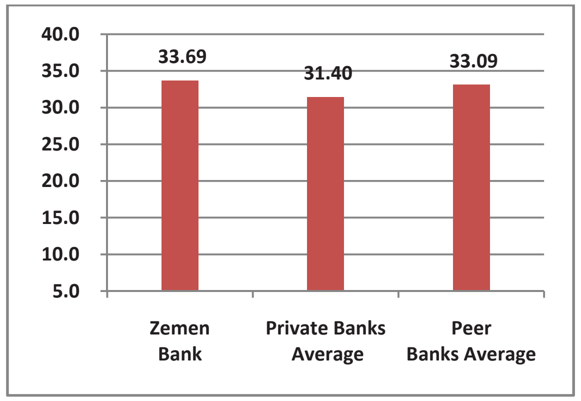
A strong lending activity which took place this year resulted in the increase of the Bank's Loan book by 50.7 Percent—the highest growth rate in the last five years. In addition to lending activities, the Bank's International Banking operation supplemented the outcome of current year's satisfactory return. Such strong operational activities generated Birr 483.8 Million in profit-after-tax which is a 78.5 percent increase from the previous fiscal year and the highest growth rate since the year 2010. The Bank has generated revenue of Birr 1,583 Million that was offset by Birr 947 Million in interest and other expenses. When being measured against capital and assets, this year's net profit-after-tax interprets to a return on average equity of 23.71 Percent and return on average asset of 3.29 Percent.

Zemen Bank's result has continued to be supported by a distinctive business model that is focused on corporate clients and technologically driven banking services via moderate branch expansion and multiple service delivery channels (such as ATMs, Internet Banking, mobile banking, POS terminals and Kiosk Banking).

During the year, the Bank's paid-up capital has registered a 25 Percent increase. The net income yield is equivalent to Earnings per Share (EPS) of 39.8 Percent. This year's EPS is 38 percent higher than the previous year. The last five years average record of EPS performance shows that Zemen's performance is above the private industry by 2.29 percentage point.

Earnings Per Share: Last Five Year Average

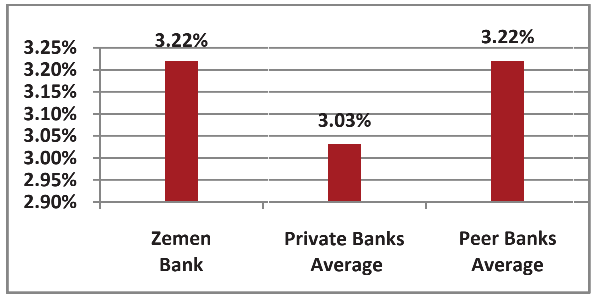
GRAPH 1



The last five-year average return on asset strikes above private banks' average and equal with the peer banks average.

Return on Asset: Last Five Year Average

GRAPH 2

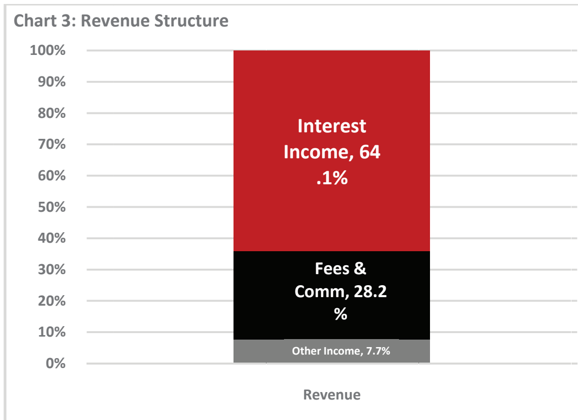


Revenues:

The bank has generated a total income of Birr 1,583 Million with 39.5% increase against last year's record of Birr 1,135 Million. Of the total income, interest income accounts for Birr 1,015 Million or 64 percent of total revenue while fees derived mainly from trade service operations constitutes about Birr 445 Million or 28 percent of total revenue. Other income from foreign exchange gain and processing fees accounts Birr 121 Million or 18 Percent of total revenue. Encouragingly, the Bank's revenue structure continued to be more inclined to lending business than a few years back and less susceptible to a slowdown and fluctuation in international banking business.

Revenue Structure

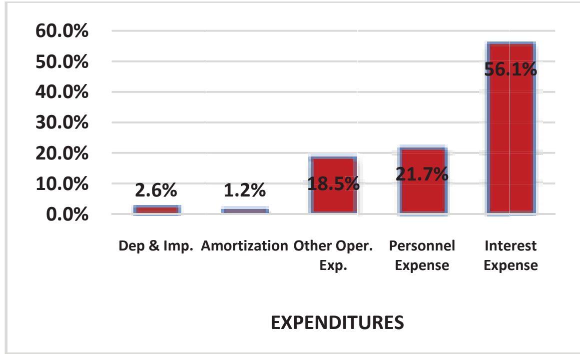
GRAPH 3



Expenditure: Total expense for the fiscal year has reached Birr 947 Million. This is 13% below the target set. The Bank's operational expenses were dominated by interest payments on deposits Birr 531 Million, salaries and benefits Birr 205 Million, office rent expenses Birr 60 Million and depreciation and amortization on both tangible and intangible asset being Birr 35.6 Million. The Bank's cost-to-income ratio has decreased from 44 percent at the end of June 2018 to 39% which is way below the strategic target of 40%.

Expenditure Structure

GRAPH 4



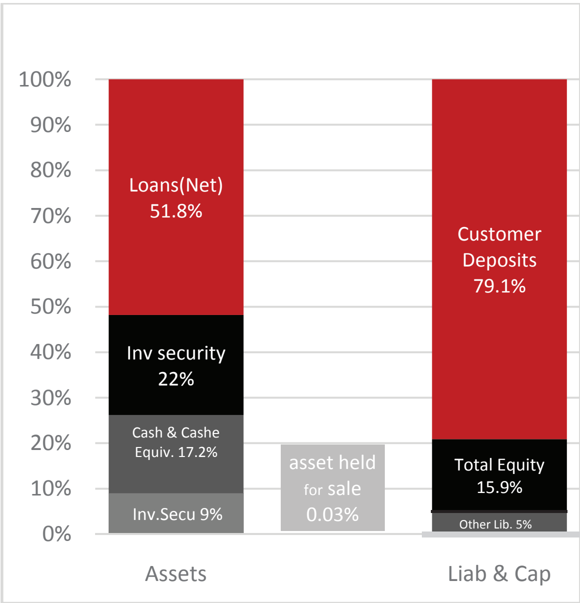
Gross profit: Registering a profit before tax of Birr 635.8 Million, Zemen Bank has become one of a few banks that registered a remarkable profit growth rate from the previous year. The profit surpassed target by Birr 224 Million or 54 percent The Bank registered commendable gross profit growth of 87% compared to previous year—the highest of the last five years.

Balance Sheet: The balance sheet of the Bank reflected remarkable growth at every major indicator during the year. As at June 30, 2019, the Bank's total asset reached Birr 14.6 Billion, up 17% from prior year record. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits Birr 11.6 billion and shareholder funds Birr 2.3 billion. The main counterpart to these funds collected from customers and shareholders are: loans and advances Birr 7.6 billion; NBE Bills 3.2 billion; deposits at local banks and NBE Birr 692

Million; and foreign exchange deposits at foreign banks Birr 1.4 billion.

Composition of Assets, Liabilities and Capital

GRAPH 5



Liquidity: The Bank's liquidity ratio stood at 21.74%, which was well above the regulatory requirement of 15 percent. The Bank's loan to deposit and loan with bills to deposit ratios reached 65% and 93%, which is higher from last year record of 50% and 73.80% respectively which shows improvement in resource utilization of the Bank.

Proposal on dividend Payout

After making appropriate deduction of tax, legal reserve, board remuneration fee and other adjustments from the gross profit earned during the fiscal year, a net profit of Birr 350 million has been transferred to retained earnings. The Board of Directors proposes the full amount of profit to be transferred to retained earnings for distribution to shareholders in the form of dividend payments. Based on the year-average paid-up capital, the average dividend per share has reached 29 percent.

Banking Operations

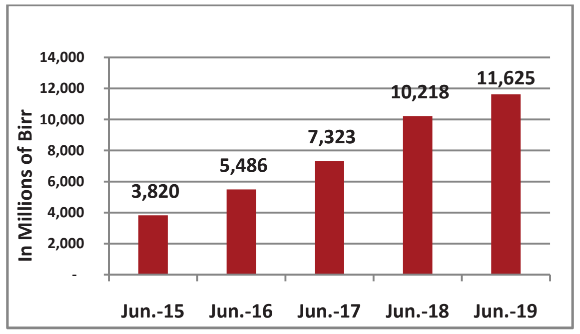
2018/19 has been a year of best performance in which the bank achieved consistent growth in key operational areas—deposit mobilization, loans and advances, and foreign exchange funds. We have been providing personalized services to our corporate clients; while remaining true to our core values of being proudly Ethiopian, professional, world-class, and always customer-focused.

Deposits:

Despite the growing competition among the banks, especially in deposit mobilization, Zemen continues to register an encouraging performance in terms of the year-on-year deposit mobilization. The Bank has boosted its deposit base by 13 percent, with total deposits mobilized reaching Birr 11.6 billion at the end of June 2019.

Deposits Trends: 2015-2019

GRAPH 6



The composition of deposits is broadly in line with the Bank's strategic objectives: saving deposits make-up the largest share (50.2 percent), followed by checking deposits (36.1 percent). Time deposits accounts for 11 percent and other deposits with the remaining share of 2.6%.

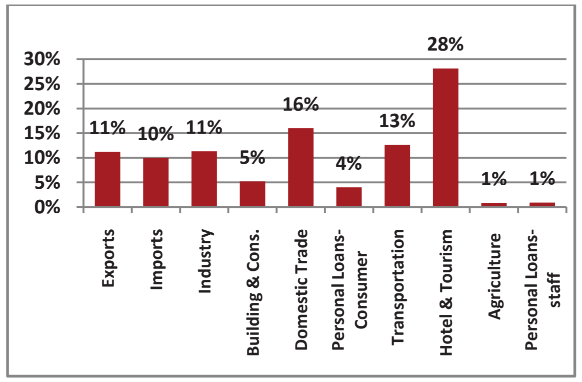
Credit:

During the fiscal year 2018/19, the Bank's lending books registered a remarkable increment. It showed a growth of 49.1 Percent this past fiscal year, with gross loans rising from Birr 5,218 Million to Birr 7,778 Million. Zemen's this time loan growth (2.56 billion) is the highest of the last five Y-O-Y performances.

The composition of loans and advances covers: Industry 11.3%, Imports 10.%, Exports 11.2% and Domestic Trade and Services (16%), Hotel and Tourism (28%) and others accounted for (23.4%). Moreover, in line with its prudent loan management practice, the Bank's non-performing loan ratio has decreased to 2.78 percent, which is below the maximum regulatory requirement of 5 percent. And way below last year's record (3.78 percent)

Loan Book Composition

GRAPH 7

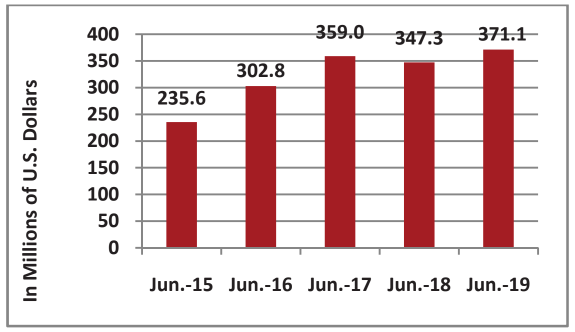


International Banking:

During the 2018/19 FY, the Bank mobilized a total foreign currency of USD 371 million, which have shown a slight increase from USD 347 million last fiscal year. International banking services continued to be a significant source of the Bank's income (next to credit service).

Foreign Exchange Inflows: 2015-2019

GRAPH 8



During the fiscal year, Zemen Bank continued to provide foreign currency account services to more than 2,000 customers, such as investors, embassies, international organizations, and the Diasporas.

In another development, the Bank has expanded its correspondent banking relationship with 94 banks covering over 32 countries, including active correspondent account relationships with many global financial institutions.

Multi-channel banking services:

Multi-channel services such as ATMs, Internet and Mobile Banking, Doorstep banking as well as POS have also been a core operating and service delivery channels for the Bank beyond the moderately distributed network. The number of debit card, mobile banking and internet banking users has been increased substantially during financial year 2018/19, indicating the growing of demand for digital banking services. Below are snapshots of our activities in these multiple service delivery channels:

- In the 2018/19 FY, our banking facilities have reached twenty four in Addis Ababa and nineteen in outlying areas. The total physical service facilities providing banking services have reached 43 locations. This has led to a moderate deposit account growth of 27 percent from last year.
- ATMs continued to be a highly valued banking channel for many of our customers with daily average cash transaction of Birr 2.3 million. The total yearly cash withdrawal through ATMs has reached Birr 853.93 million or an average of Birr 71.2 million per month which is up 17 % from previous year. The world's two largest card payment networks, VISA and MASTER CARD, continued to be accessible through our ATMs, allowing a very wide pool of international cardholders to access local currency funds from the convenience of our ATMs. Currently, the Bank has a total of 68 ATMs deployed across the country.

Debit Card

With the launch of our multi-channel banking services, Zemen Debit Cards are now available for all account holders at Zemen Bank. The additional convenience of having a Zemen Debit Card allows customers to access their account much easily through the Call Center, branch, online or via ATM outlets.

Point of Sale (POS) Terminals: Zemen has continued expanding provision of multichannel banking with a total deployment 40 POS machines into the market during the reviewed year. The number of personalized Debit Cards issued to the Bank's customers depicted an increase of 14,069 and stood at 50,166 cards at the end of FY 2018/19.

- **Internet Banking:** The Internet banking facility is providing service to about 9,362 registered users. Our internet banking solution continued to offer a world-class package of online banking tools, with enhanced features.

- **Mobile Banking:** Zemen Bank offers phone-based services, the use of Mobile Banking service alternatives are also strengthened and continued as means of reaching the customer at any time, any place and circumstances creating convenience to our customers. facility allows customers to check balances, review transaction activity, and make fund transfers over the phone.

- **Doorstep Banking:** Zemen Bank doorstep banking, cash delivery and pick-up services is being enjoyed by local and foreign companies. During the reported period, over 3,000 doorstep banking related trips involving transactions totaling Birr 1.21 billion have been completed as part of our dedicated service to large corporate businesses with very high cash turnover.
- **Corporate Payroll Services:** A total of more than Birr 493.1 million (22.2 percent from last year) has been paid out as part of our corporate payroll services. During the course of the year, we have provided on field payroll service for about 22,000 employees on a monthly basis.

Human Resources and Administration:

The Bank has continued giving due attention on recruiting competent professionals from the market with strong commitment to upgrade and strengthen its staff capabilities. During the fiscal year, a continued focus placed on recruiting the most talented and experienced professionals. The Bank's staff headcount reached at 885 as at June 30, 2019. To successfully attain Human Capital Strategy of the Bank, training of staff continues to be accorded special attention. Accordingly, 1,032 staff received training in a range of core technical areas. The Bank has given short term technical and Leadership trainings locally, abroad and in-house. Likewise, the bank sponsor long-term education and various certification-programs. Young Graduate Training Program (YGTP) for fresh graduates who have joined the Bank at entry level has been successfully implemented. Personal Development and English Language Program has also been given for professional staff at all level.

Risk Management:

The Bank endeavors to pursue its business prudently with unwavering commitment for compliance to applicable national and international rules and regulations. Prudent risk management has become an integral part of the Bank's day-to-day business. Periodic measurement of the Bank's risk exposure against key risk metrics had been conducted in away proactive intervention is enabled. Compliance and money laundering risks were given utmost priority and the process of automating the compliance and anti-money laundering process are well underway to meet the ever changing nature of the business and protect the bank from non-compliance and other related risks. The task of regularly identifying and mitigating risks is further supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Committee and Loan Review Committee.

Corporate governance:

Governance principles are ensured to be part of the Bank's business practices. The various sub Committees (Audit, IT, Risk, Human Resources and Strategy and budget) instituted by the Board of Directors oversee application of corporate governance principles in the Bank's business undertakings. The Bank remains committed to observing and adhering to the highest standards of corporate governance and business ethics as set out by the National Bank of Ethiopia and other pertinent government organs.

Project accomplishments:

During 2018/19 financial year the Bank's accomplishment with regard to the execution of major projects was so successful. Accordingly, Integration of MasterCard and Visa Card into the New POS terminal through proper certifications of international card schemes, Payment Card Industry Data Security System (PCI-DSS), and Payment Card Industry Personal Identification Number (PCI – PIN) certification, system upgrade and integration to the new core banking system, implementation of Anti-Money Laundry System (AML) and strait through process(STP) between core banking system (CBS) & SWIFT are among the core accomplishments.

Outlook for the year ahead

Being cautiously optimistic about the year ahead in spite of the continuing fierce competition amongst the banks and the challenging economic situation, the Bank will continue to focus on long-term stance of its own mission, strategy, and operations in the context of the rapidly changing business, economic, and regulatory environment. The fact that the Bank registered a notable performance in most areas in this year will give a firm basis to raise the next year results to higher levels.

In the year ahead, the following major tasks are envisaged:

- **Strategy**
The fiscal year 2019/20 will be the last period of the existing Five Year Strategic Plan period of the Bank. Accordingly, the Bank's ten-year road map and five-year strategy will be crafted which is expected to transform the bank to be one of the major players in the industry.
- **Enhance Resource Mobilization:** The Bank's recent performance in mobilizing deposits has been encouraging and will continue as top priority to reduce concentration risk in the New Year. Equally, mobilizing foreign exchange through different channels and incentives will be given priority to address customer demands.

- **Headquarter Building:** The overall construction progress of the Bank's headquarters building (3B+G+32) has reached 45.95 percent completion at the end of June 2019. The building project is expected to be completed by the end of August 2020.
- **Mobile Banking:** To enhance the existing mobile USSD service, a project is underway to launch mobile banking solution which is an e-payment solutions comprising mobile, agent, and M-wallet solutions, to enable us update and transform our services, aiming for more global standards in the new fiscal year.
- **Customer relationship management (CRM):** To revamp our client-centered culture that preserves long-term improved relationships with our customers, implementation of CRM system is one of the projects we have in the new fiscal year.
- **Enterprise risk management (ERM):** In a move to strengthen the management capability to manage all risks against pursuit of compliance and returns, an automated risk management system (ERM) is one of our project priorities. The system will enable the bank identify potential threats and to define the strategy for eliminating or minimizing the impact of these risks.

In conclusion, Zemen Bank will continue exert efforts in FY 2019/20 to achieve improved performance in the area of deposit mobilization, credit and FX inflow. The Bank continues to embrace the client-centered culture that preserves long-**term** relationships with our customers. Strong management and corporate governance also continues to be key pillars of Zemen Bank.

CUSTOMER SNAPSHOTS

Ethiopia's biggest flower exporter

Turkish Airlines

Unilever

Department for International Development

Nestle Waters Ethiopia

International Community School

NOAH Real Estate PLC.

The world's biggest brand

CUSTOMER SNAPSHOTS

Ethiopia's largest wine producer

International Air Transport Association

HEINEKEN

Hilina Enriched Foods PLC

Corbetti Geothermal

A world-class airline

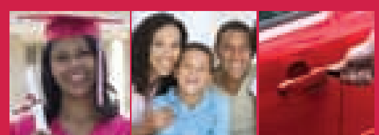
Habesha Brewery

Lufthansa

Mortage Loans

Corporate Loans

Personal Loans



LOANS

Mortgage Loans

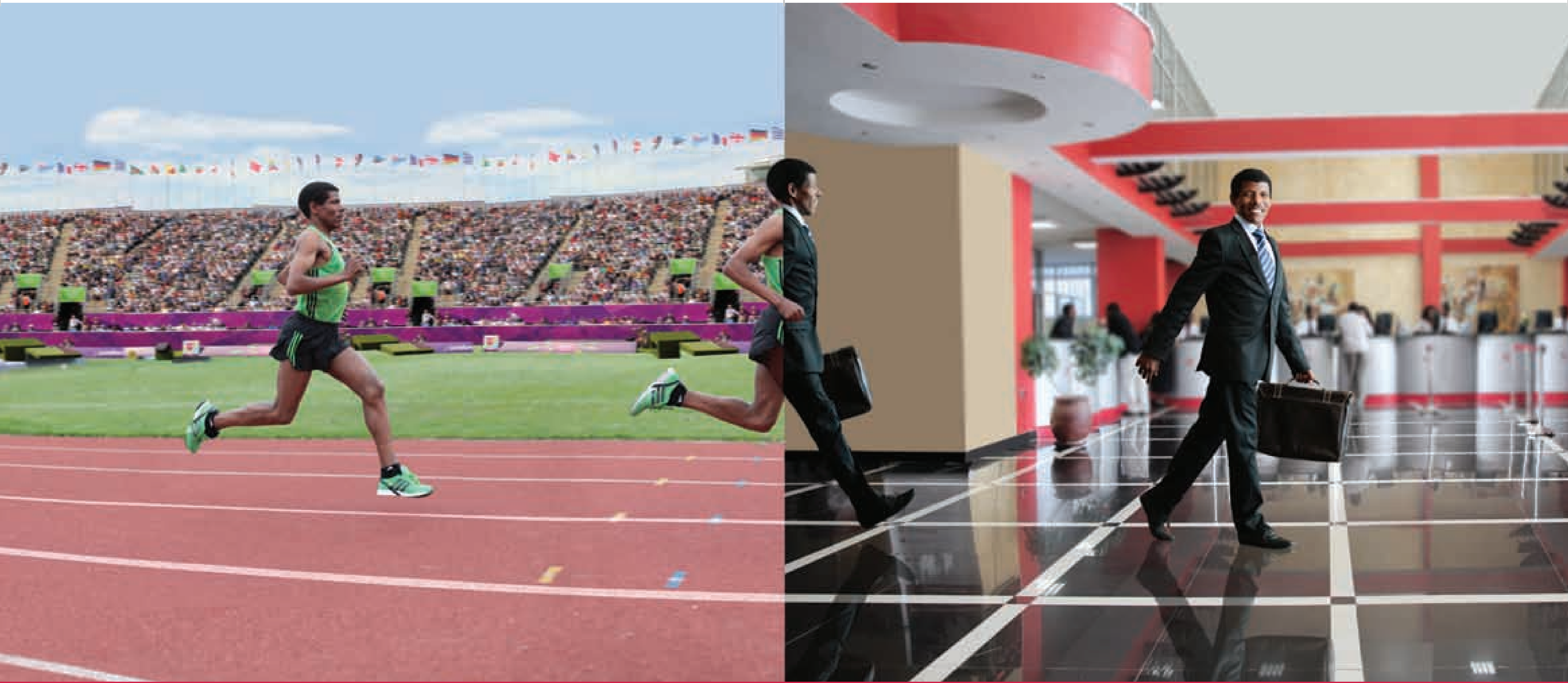
Zemen Bank's mortgages can make your dreams of owning a home come true. Zemen Bank Home Loans are designed for those with steady incomes and the ability to cover at least 30 percent of the cost of the homes.

Corporate Loans

Zemen Bank's corporate lending services can finance businesses that need: Term loans to establish/expand operations, Machinery/vehicles/equipment loans, Export or import financing, Merchandise loans, Short-term lines of credit, Project finance loans

Personal Loans

Zemen Bank offers personal loans to individuals with full-time employment or with other steady income sources.



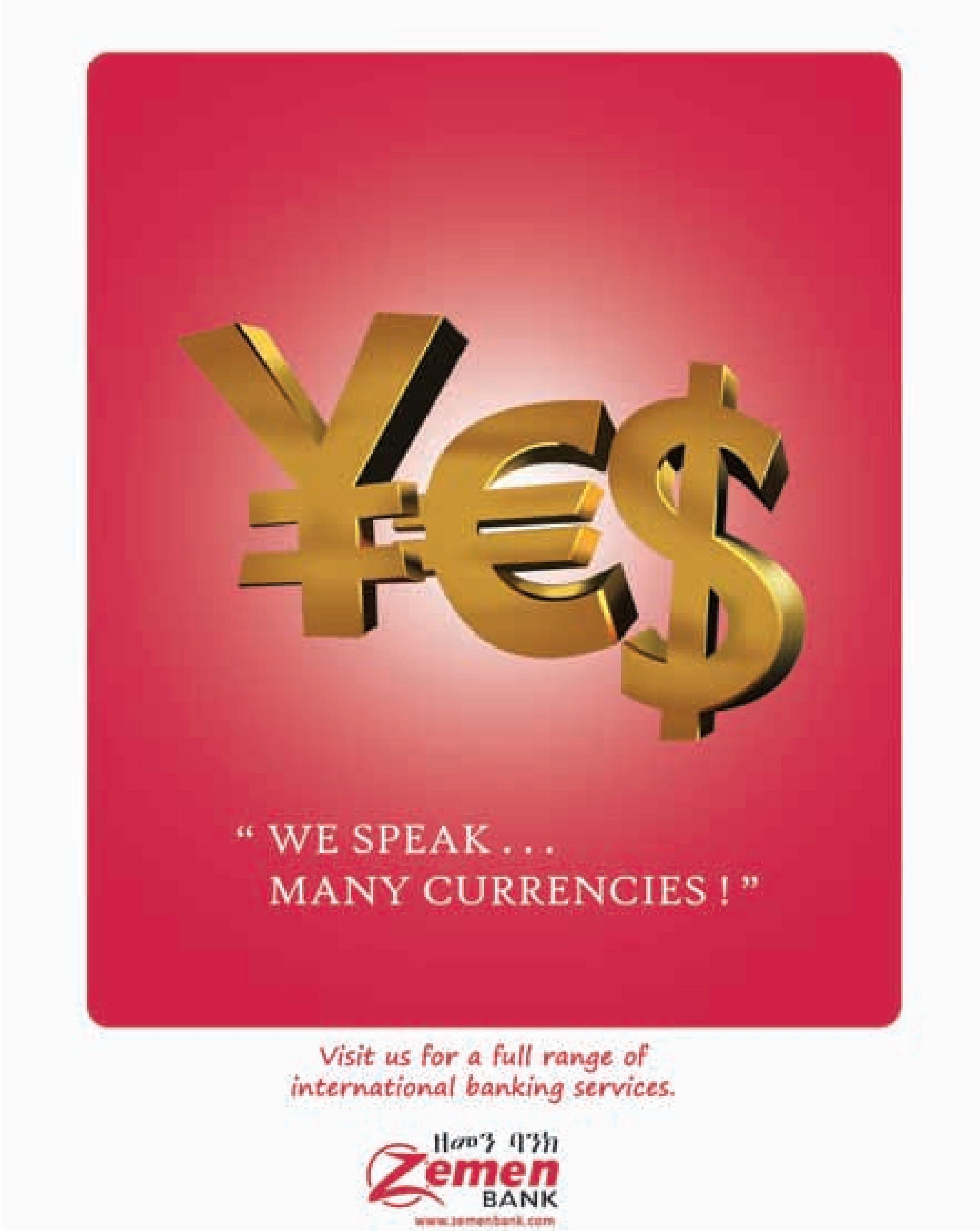
DOORSTEP BANKING

Save time, avoid risk and make your banking easier through Z-Doorstep Banking service!

DoorStep Banking

Check, CPO, Cash collection and delivery services

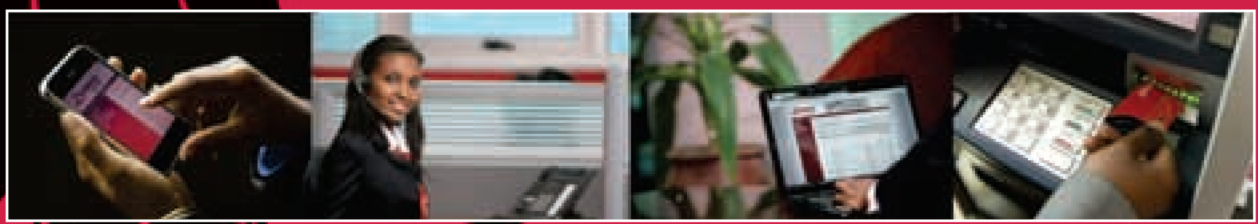
Z-Doorstep Banking service is a solution that renders CPO, cash, and check collection services to a specified address without compromising the safety of your money. Zemen Bank will pick up your money and deposit it into your account while issuing deposit slips on site. Furthermore, your money will earn a high interest rate each day at Zemen Bank while deposited in a saving account.
Delivery and pick up orders can be placed via email, fax, telephone.



MODERN BANKING SERVICES

Zemen Bank is all about giving customers choices and conveniences, Accordingly, we provide our customers with the option of banking at a branch, over the phone, via an ATM, through the internet, or even at your doorstep. The options are there, the choice is yours!

We welcome you to visit our impeccably furnished Branch, always fully staffed to minimize the transaction times at our counters. Indeed, all our branch transactions are electronic and we strive to complete your visit in just 5 minutes.



AUDITORS’ REPORT

ATMs
Our ATMS allow customers to perform their basic banking activities such as cash withdrawals and balance inquiries 24 hours a day, 7 days a week.

Online Banking
You can check account and loan balances, transfer funds, access daily exchange rates, and (soon) pay your bills online with just a click of a mouse from anywhere and at anytime.

Call Center 00251 (0)11 550 1111
Customers can check balances or make account enquiries over the phone. Customers are also able to access current interest rates, forex rates and transfer funds.

Mobile Banking
Zemen’s Mobile Banking Service enables customers to check their balances and, most importantly, send/receive funds via their mobile phones by simply dialing *844#.

ZEMEN BANK S.C.

DIRECTORS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE

FOR THE PERIOD ENDED 30 JUNE 2019

Directors (As of June 30, 2019)

Prof. Abebe Dinku	Board Chairman	(Appointed Feb 2018)
Dr. Theodros Atlabachew	Board Deputy Chairman	(Appointed Feb 2018)
Prof. Emana Getu	Non-Executive Director	(Appointed Feb 2018)
Mierf Shewaye	Non-Executive Director	(Appointed Feb 2018)
AddisAlem Kedir	Non-Executive Director	(Appointed Feb 2018)
Amare Habe	Non-Executive Director	(Appointed Feb 2018)
Mikre Ayalew	Non-Executive Director	(Appointed Feb 2018)
Bezuwork Mamo	Non-Executive Director	(Appointed Feb 2018)
Abebe Chekol	Non-Executive Director	(Appointed Sep 2018)

Executive Management (As of June 30, 2019)

Dereje Zebene	President/CEO	(Appointed Apr 2018)
Meseret Wondim	V/P - Corporate Resources Management	(Appointed Aug 2016)
Amha Tadesse	V/P - Technology	(Appointed Nov 2017)
Kassahun Ayalew	A/V/P - Customer Service	(Appointed May 2019)
Dereje Mihretu	A/V/P - Operations	(Appointed May 2019)
Bayush Berhanu	Director - Multichannel Banking Department	(Appointed Mar 2018)
Adugna Mekonnen	Director - Risk & Compliance Management Department	(Appointed Sep 2016)
Aklilu Sisay	Director - Personal & Business Banking Department	(Appointed May 2019)
Michael Tsegaye	A/Director - Corporate & Institutional Banking Department	(Appointed May 2019)
Lemma Alemayehu	Director - Finanace Department	(Appointed May 2019)
HaileYesus Mezgebu	Director - IT Projects Department	(Appointed Apr 2016)
Tesfaye Salilew	Director - E- Channel Management Department	(Appointed Aug 2016)
Phylipos Mitiku	Director -Core Banking & Software Dev't Dep't	(Appointed Aug 2016)
Molla Tikuye	A/Director - Credit Department	(Appointed June 2019)
Biniyam Abreham	Director - International Banking Dep't	(Appointed Aug 2016)
Tewahido Taffese	Director - Knowledge & Innovation Department	(Appointed Mar 2017)
Taye Nigatu	Director - Facility management Dep't	(Appointed Aug. 2016)
Elias Kinfegebriel	Director - Human Resource Department	(Appointed Dec. 2013)
Birhanu Beyene	Legal Counsellor	(Appointed Feb. 2019)
Yohannes Getachew	Director - Internal Audit Department	(Appointed Aug 2016)
Kassahun Merawi	Director - Engineering Department	(Appointed Apr 2017)

Independent auditor
Degefa and Tewodros Audit
Service Partenership
P.O.Box 8118
Addis Ababa, Ethiopia

Corporate office
Joseph Tito Street
P.O.Box 1212
Kirkos
Addis Ababa, Ethiopia

ZEMEN BANK S.C.

REPORT OF THE DIRECTORS

FOR THE PERIOD ENDED 30 JUNE 2019

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

Incorporation

Zemen Bank Share Company was established in Addis Ababa in 2008 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 84/94 and the Commercial Code of Ethiopia of 1960.

Principal activities

The Bank's principal activity is commercial banking.

Results and dividends

The Bank's results for the year ended 30 June 2019 are set out on page 28. 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	1,015,048	712,405
Profit / (loss) before tax	635,856	342,319
Tax (charge) / credit	(152,087)	(71,298)
Profit / (loss) for the year	483,770	271,021
Other comprehensive income / (loss) net of taxes	6,027	(713)
Total comprehensive income / (loss) for the year	489,796	270,309

Directors

The directors who held office during the year and to the date of this report are set out on page 22.

ZEMEN BANK S.C.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with the Financial Reporting Proclamation No. 847/2014 the Accounting and Auditing Board of of Ethiopia (AABE) 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 International Financial Reporting Standard and in the manner required by the Accounting and Auditing Board of of Ethiopia, 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 keep such records 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 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.

Prof. Abebe Dinku
Chairman of Board of Directors
November 18, 2019

Dereje Zebene
President/CEO

ZEMEN BANK S.C.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of **ZEMEN BANK SHARE COMPANY** which comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income and statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory information.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ZEMEN BANK SHARE COMPANY as at 30 June 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRS). And as required by the commercial code of Ethiopia, based on our audit we report as follows:

i. Pursuant to Article 375(1) of the Commercial Code of Ethiopia, 1960 and based on our reviews of the board of directors' report, we have not noted any matter that we may wish to bring to your attention.
ii. Pursuant to article 375 (2) of the commercial code of Ethiopia we recommend the financial statements be approved.

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 Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements 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 Matter

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; we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

The Bank has implemented IFRS 9 financial instruments. This standard was published in July 2014, replacing the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Due to newness of some of requirement of this IFRS to the bank and country as whole, it had challenges in the area of business process, knowledge and training, market information and technology requirements which made the implementation process tiresome. As result, we have had series of discussions with the concerned unit of the bank on the matter; reviewed relevant documents and of course the verification work took us much time.

How our Audit Addressed the key Audit matter

We have assigned a team with vast experience of banking business and hands-on experience on IFRS implementation process.

The bank has engaged international consultancy firm (KPMG) to enable it to properly implement IFRS 9 and its new requirements. The bank also trained its staff both abroad and locally to ensure sustainability of IFRS compliance. The management of the bank further explained to us that it used various alternative ways for gathering various market information and used unobservable inputs in cases where market information is not available which is as per requirement of IFRS and it is also considering information system updates and upgrades to enable it to comply to data requirements of this standard. The adoption of IFRS 9 required reinstatement of certain comparative figures. Thus the effect of adopting this standard has been adjusted in the retained earnings account by reinstating the affected comparative figures.

Responsibilities of Management and Those charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the company and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements 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 for accounting unless management either intends to liquidate the company or to close operations, or has no realistic alternative but to do so.

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

Auditors Responsibility for the Audit of the financial Statements

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

Degefa & Tewodros Audit Services
Partnership,
Chartered Certified Accountants
Addis Ababa
November 18, 2019

ZEMEN BANK S.C.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2019

In Ethiopian Birr

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income	5	1,015,048	712,405
Interest expense	6	531,242	441,732
Net interest income		483,806	270,673
Fee and commission income	7	445,958	320,223
Fee and commission expense	7	-	-
Net fees and commission income		445,958	320,223
Other operating income	8	121,963	103,089
Total operating income		1,051,727	693,985
Loan impairment charge	9	(427)	27,044
Impairment losses on other assets	10	(14)	609
Net operating income		1,052,168	666,332
Personnel expenses	11	205,641	171,556
Amortisation of intangible assets	18	11,395	9,553
Depreciation and impairment of property, plant and equipment	19	24,280	20,532
Other operating expenses	12	174,996	122,372
Profit before tax		635,856	342,319
Income tax expense	13	152,087	71,298
Profit after tax		483,770	271,021
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		(1,860)	(1,018)
Deferred tax (liability)/asset on remeasurement gain or loss	13	558	305
Fair value adjustment on equity investment		11,428	
Deferred tax (liability)/asset on remeasurement gain or loss		(4,099)	
		6,027	(713)
Total comprehensive income for the period		489,796	270,309
Basic and diluted earnings per share	25	398	286

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.

STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 30 JUNE 2019

In Ethiopian Birr

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
ASSETS			
Cash and cash equivalents	14	2,526,886	4,053,900
Loans and advances to customers	15	7,609,536	5,048,873
Asset Held for sale		5,138	3,134
Investment securities:			
- Equity Investement	16	21,613	10,185
- Bills and Bonds	16	3,206,487	2,421,290
Other assets	17	522,284	367,636
Intangible assets	18	74,629	53,665
Property, plant and equipment	19	722,448	530,466
Deferred tax assets	13	-	-
		14,689,021	12,489,150
Total assets		**14,689,021**	**12,489,150**
LIABILITIES			
Deposits due to other banks	20	-	23,800
Deposits from customers	21	11,625,170	10,217,516
Current tax liabilities	13	151,868	84,042
Other liabilities	22	557,159	400,748
Finance lease obligation		-	-
Deferred tax liabilities	13	13,848	10,158
Retirement benefit obligations	23	8,352	5,188
Total liabilities		**12,356,397**	**10,741,452**
EQUITY			
Share capital	24	1,412,098	1,125,000
Share premium		425	425
Retained earnings	26	350,088	189,381
Legal reserve	27	455,111	334,168
Regulatory risk reserve	28	111,140	100,987
Other reserve		3,762	(2,265)
Total equity		**2,332,624**	**1,747,697**
Total equity and liabilities		**14,689,021**	**12,489,150**

The notes on pages 32 to 94 are an integral part of these financial statements.
The financial statements on pages 28 to 94 were approved and authorised for issue by the Board of Directors on November 18,2019 and were signed on its behalf by:

Prof. Abebe Dinku
Chairman of Board of Directors

Dereje Zebene
President/CEO

ZEMEN BANK S.C.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2019

In Ethiopian Birr

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Regulatory risk reserve Birr'000	Other reserve Birr'000	Legal reserve Birr'000	Total Birr'000
As at 1 July 2017		**850,000**	**425**	**194,857**	**38,264**	**13**	**266,413**	**1,349,972**
Profit for the period	26			271,021				271,021
Opening balance adjustment				(1,385)		(1,565)		(2,950)
Other comprehensive income:								-
Re-measurement gains on defined benefit plans (net of tax)	13					(713)		(713)
Dividends paid				(197,727)				(197,727)
Proceeds from issue of shares		275,000						275,000
Transfer to legal reserve	27			(67,755)		-	67,755	-
Transfer to regulatory risk reserve	28			(8,859)	62,723			53,864
Directors share on profits				(771)				(771)
Total comprehensive income for the period		275,000	-	(5,475)	62,723	(2,278)	67,755	397,725
As at 30 June 2018		**1,125,000**	**425**	**189,381**	**100,987**	**(2,265)**	**334,168**	**1,747,697**
As at 1 July 2018		**1,125,000**	**425**	**189,381**	**100,987**	**(2,265)**	**334,168**	**1,747,697**
Profit for the period	26			483,770				483,770
Other comprehensive income:								-
Re-measurement gains on defined benefit plans (net of tax)	13					(1,302)		(1,302)
Fair value adjustement						7,329		7,329
Dividends paid				(190,766)				(190,766)
Proceeds from issue of shares		287,098						287,098
Transfer to legal reserve	27			(120,942)		-	120,942	-
Transfer to regulatory risk reserve	28			(10,154)	10,154			-
Transfer to Revaluation Surplus				-				-
Directors share on profits				(1,201)				(1,201)
Total comprehensive income for the period		287,098	-	160,706	10,154	6,027	120,942	584,927
As at 30 June 2019		**1,412,098**	**425**	**350,088**	**111,140**	**3,762**	**455,111**	**2,332,624**

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2019

In Ethiopian Birr

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash flows from operating activities			
Cash generated from operations	29	(504,359)	1,630,073
Defined benefits paid		-	-
Income tax paid		(84,112)	(91,760)
Net cash (outflow)/inflow from operating activities		**(588,471)**	**1,538,313**
Cash flows from investing activities			
Purchase of investment securities	16	(785,236)	(386,080)
Purchase of intangible assets	18	(32,358)	(13,918)
Purchase of property, plant and equipment	19	(216,361)	(336,834)
Acquired properties(net)		(2,004)	(3,070)
Purchase of additional Equity Investments		-	(632)
Proceeds from sale of property, plant and equipment	29	1,240	223
Net cash (outflow)/inflow from investing activities		**(1,034,719)**	**(740,311)**
Cash flows from financing activities			
Proceeds from issues of shares		287,098	275,000
Dividend paid		(190,152)	(197,727)
Directors share on profit paid		(771)	
Net cash (outflow)/inflow from financing activities		**96,175**	**77,273**
Net increase/(decrease) in cash and cash equivalents		**(1,527,016)**	**875,276**
Cash and cash equivalents at the beginning of the year	14	4,054,084	3,178,808
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	14	**2,527,068**	**4,054,084**

The accompanying notes are an integral part of the financial statements

1 General information

Zemen Bank Share Company was established in Addis Ababa in 2008 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 84/94 and the Commercial Code of Ethiopia of 1960.

Joseph Tito Street
P.O.Box 1212
Kirkos Sub City
Addis Ababa, Ethiopia

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

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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

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.

The financial statements for the period ended 30 June 2019 are prepared in accordance with IFRS. The financial statements have been prepared in accordance with the going concern principle under the historical cost concept, except for defined benefit pension plans – plan assets measured at fair value.

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

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

New Standards, amendments, interpretations issued but not yet effective.
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2019, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 16 - Leases
This standard was issued in January 2016 (Effective 1 January 2019) . It sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. it also substantially carries forward the lessor accounting requirements in IAS 17. The Bank is yet to assess the expected impact of this standard.

IFRIC 23 Uncertainty over Income Tax Treatments
IFRIC 23 'Uncertainty over Income Tax Treatments' This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such circumstances, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. The new interpretation is effective on 1 January 2019 and earlier application is permitted. The Bank is yet to assess the impact of this stsndard.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:
(i) The beginning of the reporting period in which the entity first applies the interpretation or;
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

2.2.3 IFRS 9 Financial Instruments

The Bank has initially adopted IFRS 9 from 1 July 2018,
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 effect of initially applying these standards is mainly attributed to the following:

– An increase in impairment losses recognised on financial assets **(Note (4.4)**; and

– Additional disclosures related to IFRS 9 **(see Notes 2.5 and 4.4);**

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 2.5 to all periods presented in these financial statements.

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 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 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 2019, 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 4.4.**

Transition from IAS 39 to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except comparative periods which have generally 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 2018does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

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

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 investments in equity instruments not held for trading as at FVOCI.

- 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.

2.3 Foreign currency translation

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

2.4 Recognition of income and expenses

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

The Bank, earns income from interest on loans given domestic trade and services, building and construction, manufacturing, agriculture, hotel and turism, transportation, import, export and consumer loans. Other incomes includes service charge on letter of credits and commission on performance gaurantees.

2.4.1Interest and similar income and expense

For all the government bills measured at amortised cost and interest bearing financial assets classified as available– for–sale interest income or expense is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR), but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

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

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

2.4.3 Dividend income

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

2.4.4 Foreign exchange revaluation gains or 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.

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 financial liabilities

2.5.1 Policy applicable from 1 July 2018

a. Recognition and initial measurement
The Bank shall initially recognise loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) shall be recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

b. Classification and subsequent measurement
i) Financial assets
On initial recognition, a financial asset shall be classified either as measured at either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The Bank shall measure a financial asset at amortised cost if it meets both of the following conditions and is not designated at FVTPL:
— The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). A debt instrument shall be measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:
— The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
— The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

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In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see 1.8).

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

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

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

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

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

ii) Financial liabilities
The Bank shall classify its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

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

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

c. Impairment

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

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

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

No impairment loss shall be recognised on equity investments.

The Bank shall measure loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

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

Loss allowances for lease receivables shall always be measured at an amount equal to lifetime ECL.

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

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

i) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It shall be measured as follows:

- For financial assets that are not credit-impaired at the reporting date (stage 1 and 2):as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);

- For financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
- For undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- For financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Restructured financial assets

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

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

iii) Credit-impaired financial assets

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

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

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition shall be considered to be credit-impair 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, a retail loan that is overdue for 90 days or more shall be considered credit-impaired even when the regulatory definition of default is different.

iv) Presentation of allowance for ECL in the statement of financial position

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

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the 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; and
- For debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognised in the fair value reserve.

v) Write-off

Loans and debt securities shall be written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the 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. This assessment shall be carried out at the individual asset level.

Recoveries of amounts previously written off shall be included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

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

vi) Non-integral financial guarantee contracts

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

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

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

d. Derecognition
i) Financial assets
The Bank shall derecognise a financial asset when:
— The contractual right to the cash flows from the financial asset expires (see also (1.4)), or

— It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
— Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI shall be recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI shall not be recognised in profit or loss on derecognition of such securities.

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

ii) Financial liabilities
The Bank shall derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire.

e. Modifications of financial assets and financial liabilities
i) Financial assets
If the terms of a financial asset are modified, then the Bank shall evaluate whether the cash flows of the modified asset are substantially different.
If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognised (see (1.3)) and a new financial asset shall be recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.
If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it shall first consider whether a portion of the asset should be written off before the modification takes place.

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

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

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

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

f. Offsetting
Financial assets and financial liabilities shall be offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

g. Designation at fair value through profit or loss

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

ii) Financial liabilities
The Bank shall designate certain financial liabilities as at FVTPL in either of the following circumstances:
— The liabilities are managed, evaluated and reported internally on a fair value basis; or
— The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.5.2. Policy applicable before 1 July 2018
a. Recognition
The Bank initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

b. Classification
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at

inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included

ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Loans and receivables compose of loans and advances and cash and cash equivalents.

iii) Held to maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest rate method.

iv) Available-for-sale
Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

c.Identification and measurement of impairment of financial assets
At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Bank.

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In assessing collective impairment the Bank uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

d. De-recognition
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

e. Offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

f. Fair value of financial assets and financial liabilities
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, in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

g. Amortized cost measurement
The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.6. Net interest income

2.6.1. Policy applicable from 1 July 2018

a. Effective interest rate and amortised cost

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 credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

b. Amortised cost and gross carrying amount

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.

c. Calculation of interest income and expense

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. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

d. Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

-Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
-Interest on debt instruments measured at FVOCI calculated on an effective interest basis;
-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.

Interest income and expense on all trading assets and liabilities are considered to be 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.

2.6.2. Policy applicable before 1 July 2018

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Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost was recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimated the cash flows considering all contractual terms of the financial instrument but did not consider future credit losses. The calculation included all fees and points paid or received, between the parties to the contract that were an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs were incremental costs that were directly attributable to the acquisitio, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets had been written down as a result of an impairment loss, interest income was recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Bank's trading operations are presented in net interest income.

2.7 Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and areused by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.8 Net trading income

Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

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 group 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:

2.9 Property, plant and Equipment

Asset class	Estimated Useful Life in years	Residual Value
Buildings	50	5%
Motor vehicles	10	5%
Computer hardware	7	1%
Computer software	6	0%
Other office equipment		
Short lived	5	1%
Medium lived	10	1%
Lift and roofing	15	1%
Furniture and fittings		
Medium lived	10	1%
Long lived	20	1%

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.

2.10 Intangible assets

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

- **Computer software – 6 years**
- **Capitalised expenditure – 6 years**
- **SWIFT software – 6 years**

2.11 Investment property

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

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the 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.

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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.

2.12 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) 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 group) 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 group), 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 group) is recognised at the date of derecognition.

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

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

2.13 Impairment of non-financial assets

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

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

2.14 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.

2.15 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.9.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.9.2
- Financial instruments (including those carried at amortised cost) Note 4.9.2

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.

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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

2.16 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 15% 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 employees when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises

termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.17 Provisions

Provisions are recognised when the 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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 group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3 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 4.8
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.6.1

3.1 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.

3.2 Estimates and assumptions

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

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.

4 Financial risk management

4.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the 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.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

4.1.1 Risk management structure

Risk management is one component of all core banking processes of the Bank. In its day-to-day activities the Bank is exposed to various types of banking risks, the most important of which are credit risk, liquidity risk, foreign exchange risk, interest rate risk and operational risk. The Bank has established a comprehensive riskmanagement system in line with internationally accepted risk management principles and best practices with the necessary adoption to suit its core business activity.

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The President has established the Assets and liabilities (ALCO) and a Credit Committee which are responsible for developing and monitoring the bank's risk management policies in their specified areas.

The Bank's risk management and control is based on the following key principles

- The board of directors approves the risk management policies of the Bank and ensures their implementation.
- The management is responsible for implementing the policies in a manner that limits risks associated with each risk exposure.
- Appropriate and effective internal control exists to safeguard assets and to ensure compliance with relevant laws, regulations and institutional policies.
- The risk management and monitoring is supported by a management information system that supplies timely and consolidated reports on the financial conditions, operating performance and risk exposure of the Bank.
- The Independent Risk Management and Compliance Department is established to review compliance with the approved risk management policies and various risk related committees are established which are responsible for the implementation of the risk management policies.

4.1.2 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.

4.1.3 Risk mitigation

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

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

4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: Amortised Cost, Fair value through profit and loss and Fair value through other comprehensive income 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	Fair value through Profit and Loss Birr'000	Fair value through Other Comprehensive Income Birr'000	Amortised Cost Birr'000	Total Birr'000
Cash and cash equivalents	14			2,526,886	2,526,886
Loans and advances to customers	15			7,609,536	7,609,536
Asset Held for sale		5,138		-	5,138
Investment securities:					-
- Equity Investement	16		21,613	-	21,613
- Bills and Bonds	16			3,206,487	3,206,487
Other assets	17			522,284	522,284
Total financial assets		5,138	21,613	13,865,192	13,891,943

30 June 2018	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and cash equivalents	14		4,053,900	4,053,900
Loans and advances to customers	15		5,048,873	5,048,873
Asset Held for sale			3,134	3,134
Investment securities:				-
- Available for sale	16	10,185	-	10,185
- Loans and recivables	16		2,421,290	2,421,290
Other assets	17		367,636	367,636
Total financial assets		10,185	11,894,834	11,905,018

4.3 Credit risk

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

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4.3.1 Management of credit risk

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

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

The National Bank of Ethiopia (NBE) sets credit risk limit for a single borrower, one related party and all related parties do not exceed 25%, 15% and 35% of Bank's total capital amount as of the reporting quarterly period respectively.

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

4.3.2 Credit related commitments risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

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

(a) Types of credit exposure
The Bank's maximum exposure to credit risk at 30 June 2019 and 30 June 2018 respectively, 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	2,526,959	4,053,900
Loans and advances to customers	7,609,823	5,048,873
Investment securities:		
- Equity Investement	21,195	10,185
- Bills and Bonds	3,206,487	2,421,290
Other assets	501,720	367,636
	13,866,183	11,901,884
Credit risk exposures relating to off balance sheets are as follows:		
Loan commitments	2,045,730	1,437,820
Letter of credit and other credit related obligations	355,317	174,021
	2,401,047	1,611,840
Total maximum exposure	16,267,230	13,513,724

(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
Motor vehicle	5,121	401
Building	-	2,717.14
	5,121	3,118

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 customer at amortized 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	60,835	87,957
Industry	876,254	1,338,064
Building and construction	401,837	308,468
Domestic Trade and Service	1,241,393	579,802
Export	867,440	757,404
Import	776,566	794,495
Transportation	980,585	160,930
Hotel and Tourism	2,188,386	362,812
Personal Loans - Customers	310,918	362,750
Personal Loans - Staffs	73,544	209,284
Financial Institutions	-	255,557
	7,777,758	5,217,523

(ii) Gross loans and advances to customers per IFRS 9 impairment standard is analysed as follows:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Performing	7,351,136	4,718,289
Under erforming	210,745	213,180
Non Performing	215,877	286,054
	7,777,758	5,217,523

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

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

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4.3.4 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.

The loss allowance for loans and advances to customers also includes the loss allowances for loan commitments and financial guarantee contracts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in **Note 2.5.1. (c), (1)**

(i) Loans and advances to customers at amortized cost

30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
Stage 1 – Pass	7,351,136	-	-	7,351,136	4,718,289
Stage 2 – Special mention	-	210,745	-	210,745	213,180
Stage 3 - Non performing	-	-	215,877	215,877	286,054
Total gross exposure	**7,351,136**	**210,745**	**215,877**	**7,777,758**	5,217,523
Loss allowance	(14,156)	(1,786)	(116,998)	(132,940)	(222,513)
Net carrying amount	**7,336,979**	**208,959**	**98,879**	**7,644,818**	4,995,010

(ii) Other financial assets (debt instruments)

30 June 2019		**Gross exposure**	**Loss allowance**	**30 June 2019 Birr'000 Net carrying amount**
Cash and balances with banks	12 Month ECL	3,622,865	(181)	**3,622,684**
Investment securities (debt instruments)	12 Month ECL	3,206,647	(160)	3,206,487
Other receivables and financial assets	Lifetime ECL	12,751	(1,029)	11,722
Totals		6,842,263	(1,371)	6,840,892

30 June 2019		Gross exposure	Loss allowance	Net carrying amount
Cash and cash equivalents	12 Month ECL	4,054,085	-	4,054,085
Investment securities (debt instruments)	12 Month ECL	2,421,411		2,421,411
Other receivables and financial assets	Lifetime ECL	378,790	(19,872)	358,918
Totals		6,854,286	(19,872)	6,834,414

i) 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.

ii) 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

4.3.5 Amounts arising from ECL

i) Inputs, assumptions and techniques used for estimating impairment
See accounting policy in **Note 2.5.1.(c)**

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 analysed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

v) Determining whether credit risk has increased significantly
The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What isconsidered significant differs for different types of lending.

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).

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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 scenarios, one upside and one downside. For each sector, the base case is aligned with the macroeconomic model's information value output, a measure of the predictive power of the model, as well as base macroeconomic projections for identified macroeconomic variables for each sector. The upside and downside scenarios are based on a combination of a percentage error factor of each sector model as well as simulated optimistic and pessimistic macroeconomic projections based on a measure of historical macroeconomic volatilities.

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

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

The Bank has identified and documented key drivers of credit risk and credit losses for each 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 Other (consumer loans)	INFLATION: Consumer price index, 2010 = 100, ave	EXCHANGE RATE: ETB/USD, ave	GDP EXPENDITURE: Exports of goods and services, USD per capita	DEBT: Government domestic debt, ETBbn	STRATIFICATION: Household Spending, ETBbn
Domestic Trade & Services and Transport &Communication	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 and Industry	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 2021

Macro-economic factor	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317	349	384
GDP: GDP per capita, USD	836	928	1,019
GDP EXPENDITURE: Exports of goods and services, USD per capita	55	60	67
GDP EXPENDITURE: Exports of goods and services, ETBbn	180	214	260
EXCHANGE RATE: ETB/USD	29	31	33
GDP EXPENDITURE: Imports of goods and services, USDbn	17	17	17
FISCAL: Current expenditure, USDbn	8	8	9
GDP EXPENDITURE: Imports of goods and services, ETBbn	485	527	568
INFLATION: Consumer price index, 2010 = 100	296	326	359
DEBT: Government domestic debt, ETBbn	643	752	872
EXCHANGE RATE: Real effective exchange rate, index	123	121	118
GDP EXPENDITURE: Private final consumption, USDbn	59	66	74
STRATIFICATION: Household Spending, ETBbn	1,708	1,926	2,149
FISCAL: Total revenue, USDbn	11	11	11
DEBT: Total government debt, USDbn	57	65	75

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.(see note 4.3.6 for 2018 comparative)

30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments and financial guarantee contracts (on balance sheet exposures)				
Balance as at 1 July 2018	82,629	20,657	119,227	**222,513**
Day one IFRS 9 transition adjustment	(67,820)	(18,590)	19,522	**(66,887)**
Adjusted balance at 1 July 2018	**14,809**	**2,067**	**138,749**	**155,626**
Transfer to stage 1 (12 months ECL)	357	(357)	-	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net remeasurement of loss allowance	(1,587)	-	224	**(1,363)**
New financial assets originated or purchased	11,586	1,786	96,261	**109,632**
Financial assets derecognised	(10,997)	(1,711)	(118,248)	**(130,955)**
Balance as at 30 June 2019	**14,169**	**1,786**	**116,986**	**132,940**

30 June 2019	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	1,068	-	11,970	13,038
Adjusted balance at 1 July 2018	**1,068**	-	**11,970**	**13,038**
Transfer to stage 1 (12 months ECL)	-	-	-	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net remeasurement of loss allowance	705	-	-	705
New financial assets originated or purchased	1,115	-	32,809	33,924
Financial assets derecognised	(413)	-	(11,970)	(12,383)
Balance as at 30 June 2019	**2,475**	-	**32,809**	**35,284**

In Birr'000 30, june 2019	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	-	-	**19,872**	19,872
Day one IFRS 9 transition adjustment	185	121	(1,078)	(1,384)
Adjusted balance at 1 July 2018	**185**	121	**20,256**	21,256
Net remeasurement of loss allowance	(4)	39	(49)	(14)
Balance as at 30 June 2019	**181**	**160**	**20,901**	21,243

The following table provides a reconciliation for 2019 between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.See note 4.3.6 for 2018 comparative.

In Birr'000 30, june 2019	Loans and advances to customers at amortised cost	Loan commitments and financial guarantee contracts	Other financial assets	Total charge/ (credit)
Net remeasurement of loss allowance	(1,363)	705	(14)	(671)
New financial assets originated or purchased	109,632	33,924	-	143,556
Financial assets derecognised	(130,955)	(12,383)	-	(143,338)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Total	**(22,686)**	**22,246**	**(14)**	**(453)**

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4.3.6 Impaired financial assets-Comparative information under IAS 39

(a) Credit quality of loans and advances to customers

30 June 2018	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	61,285	14,405	12,268	87,957
Building and Construction	260,377	28,305	19,786	308,468
Consumer	332,909	29,385	456	362,750
Domestic Trade Services	520,223	36,908	22,672	579,802
Export	631,448	978	124,978	757,404
Hotel and tourism	333,732	17,709	11,371	362,812
Import	689,663	48,859	55,973	794,495
Industry	1,305,911	10,101	22,053	1,338,064
Financial Institutions	255,557	-	-	255,557
Staff loans	206,788	2,273	223	209,284
Transport and Communication	120,397	24,259	16,275	160,930
Gross	4,718,289	213,180	286,054	5,217,523
Less: Impairment allowance (note 15)	(82,629)	(20,657)	(119,227)	(222,513)
Net	4,635,660	192,522	166,827	4,995,009

Individually impaired loans are loans that has well passed their recovery period. The counterparties are under liquidation. Individually impaired staff loans are loans given to staffs that are no longer staff of the Bank hence the recoverability of the loans is doubtful.

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

The credit quality of the portfolio of loans and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and receivables pass due for less than 30 days are classified in this category.

	30 June 2018 Birr'000
Neither past due nor impaired	4,718,289
Collective impairment	(82,630)
	4,635,659

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

	30 June 2018 Birr'000
Past due up to 30-39 days	108,722
Past due up to 40 - 49 days	25,582
Past due by 50 - 59 days	8,527
Past due by 60 - 69 days	10,659
Past due by 70 - 79 days	31,977
Past due by 80 - 89 days	27,713
	213,180

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

(iii) Loans and receivables - individually impaired loans

	30 June 2018 Birr'000
Substandard	39,261
Doubtful	7,699
Lost	238,871
	285,831

(iv) Allowance for impairment

	30 June 2018 Birr'000
Specific impairment	103,286
Collective impairment	119,227
Total allowance for impairment	222,513

4.3.7 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 expected credit loss model required by IFRS under 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 account

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

During the period ended 30 June 2019, their is transfered amont 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 IFRS 9 as at year end.

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	30 June 2019 Birr'000	30 June 2018 Birr'000
Total impairment based on IFRS	168,223	222,513
Total impairment based on NBE Directives	234,159	203,129
Transfer to Regulatory risk reserve	65,936	-

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).

To comply with the directive of the NBE, the Bank has reversed the suspended interest on impaired loans from retained earning account and transferred to Regulatory Risk reserve account as the amount is non- distributable to the shareholders.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Write backed Suspended interest net of tax	45,204	100,987

4.3.8 Credit concentrations

The Bank monitors concentrations of credit risk by social 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	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				2,526,886
Loans and receivables	876,254	401,837	1,241,393	5,258,274
Investment securities:				
- Equity Investement				21,613
- Bills and Bonds				3,206,487
Other assets				522.284
Loan Commitement				2,045,730.00
	876,253.64	401,837.10	1,241,393.27	13,581,273.46

30 June 2018	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				4,053,900
Loans and receivables	1,338,064	308,468	579,802	2,991,189
Investment securities:				
- Available for sale				10,185
- Loans and receivables				2,421,290
Other assets				367,636
Loan Commitement				1,437.82
	1,338,064.00	308,468.00	579,802.00	9,845,637.18

4.3.9 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.

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Nature of securities in respec of loans and recevables

30 June 2019	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
		45,000	47,504	14,314	-
Agriculture					
Building and Construction	2,071,712	9,200	78,293	21,495	-
Consumer	938,296	16,336	84,450	85,770	6,783
Domestic Trade Services	2,651,299	26,999	235,296	108,359	4,400
Export	1,448,898	31,136	-	108,582	1,177,699
Hotel and tourism	2,915,885	3,500	4,810	14,466	-
Import	3,086,254	173,846	42,318	22,602	47,121
Industry	2,416,583	961,931	254,815	1,100	59,948
Financial Institutions	3,369	25,941	-	-	101,852
Staff loans	100,015	-	-	31,968	-
Transport and Communication	253,074		196,596	103,748	2,310
	15,885,385	1,293,890	944,082	512,405	1,400,113

30 June 2018	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	23,526	45,000	65,880	1,400	-
Building and Construction	571,420	73,600	129,909	9,116	-
Consumer	914,998	20,042	91,864	113,995	10,901
Domestic Trade Services	1,194,633	11,075	243,688	22,453	-
Export	422,381	126,524	864,488	850	448,486
Hotel and tourism	1,045,220	375	27,940	2,862	3,125
Import	1,185,277	15,000	47,584	8,889	127,621
Industry	899,621	1,023,081	254,533	2,694	50,794
Financial Institutions	-	562,040	-	-	-
Staff loans	187,632	-	-	50,872	-
Transport and Communication	72,676	-	545,828	8,170	2,310
	6,517,384	1,876,736	2,271,714	221,301	643,237

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4.4. Financial assets and financial liabilities

4.4.1 Classification of financial assets and financial liabilities

			30-Jun-18		1-Jul-18
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-mea surement	New carrying amount under IFRS 9
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Financial assets					
Cash and balances with banks	Loans and receivables	Amortised cost	4,054,085	(185)	4,053,900
Loans and advances to customers	Loans and receivables	Amortised cost	4,995,010	66,887	5,061,897
Investment securities: Available for sale	Available for sale	FVOCI	12,421	(2,236)	10,185
Investment securities: Loans and receivables	Loans and receivables/Held to maturity	Amortised cost	2,421,411	(121)	2,421,290
Other financial assets at amortised cost	Loans and receivables	Amortised cost	368,714	(1,078)	367,636
Total financial assets			11,851,641	82,720	11,914,908
Financial liabilities				63,266	
Deposits due to other banks	Amortised cost	Amortised cost	23,800	-	23,800
Deposits from customers	Amortised cost	Amortised cost	10,217,516	-	10,217,516
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	Amortised cost	215,792	13,038	228,830
Total financial liabilities			**10,457,108**	**13,038**	**10,470,146**

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2.5. 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 wasadjusted 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 suchaccounts 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.

The following table summarises the impact of transition to IFRS 9 on the opening balance of the fair value reserve, regulatory risk reserve and retained earnings.

	Impact of adopting IFRS 9 at 1 July 2018 In Birr'000
Fair value reserve	
Closing balance under IAS 39 (30 June 2018)	-
Reclassification of investment securities (equity) measured at cost from available-for- sale to FVOCI	(2,236)
Related tax	-
Adjusted opening balance under IFRS 9 (1 July 2018)	**(2,236)**
Regulatory risk reserve (difference between IFRS and NBE provisions)	
Closing balance under IAS 39 (30 June 2018)	47,123
Recognition of expected credit losses under IFRS 9 on loans and advances to customers (on balance sheet)	66,887
Recognition of expected credit losses under IFRS 9 on loan commitments and financial guarantee contracts (off balance sheet)	(13,038)
Related tax	-
Adjusted opening balance under IFRS 9 (1 July 2018)	**100,972**
Retained earnings	
Closing balance under IAS 39 (30 June 2018)	190,765
Recognition of expected credit losses under IFRS 9 on other financial assets such as bank balances, receivables and investment securities	(1,384)
Related tax	-
Adjusted opening balance under IFRS 9 (1 July 2018)	**189,381**

4.5 Liquidity risk

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

Liquidity risk management in the Bank is solely determined by Asset and Liability Disbursement Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

4.5.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

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

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available t.o meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

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4.5.2 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	Up to 1 month Birr'000	Up to 3 months Birr'000	up to 12 months Birr'000	Over 1 year Birr'000
Customer deposits	3,317,670	3,062,632	2,850,860	2,087,360
Due to financial institutions	-			
Margins held	306,648			
Other liabilities	343,800	104,720	94,899	13,740
Profit tax payable			151,868	
Total financial liabilities	3,968,118.00	3,167,352.00	3,097,627.32	2,101,100.00

30 June 2018	Up to 1 month Birr'000	Up to 3 months Birr'000	up to 12 months Birr'000	Over 1 year Birr'000
Customer deposits	2,534,457	2,622,897	2,925,494	1,887,585
Due to financial institutions	22,800			1,000
Margins held	247,083			
Other liabilities	270,310	53,040	71,387	9,667
Profit tax payable			84,042	
Total financial liabilities	3,074,650.81	2,675,936.89	3,080,922.79	1,898,251.86

4.6 Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risk rests with the Board of Directors.

The President is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day to day implementation of those policies.

4.6.1 Management of market risk

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

(i) Interest rate risk
Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Bank's interest margin or the value of its net worth. The Bank often revises its lending rate across segments of the credit portfolio based on the changes in the cost of funds, reserve requirements and the perceived risk in each credit portfolio segment to keep the overall profitability

The asset and liability management committee is responsible for managing rate-sensitive assets and liabilities and the effects of rate, volume and mix changes in order to preserve and optimize the interest return.

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		101,842	2,425,044	2,526,886
Loans and receivables		7,609,536	-	7,609,536
Investment securities	21,613	-		21,613
Total	21,613	7,711,378	2,425,043.71	10,158,034.31
Liabilities				
Deposits due to other banks		-		-
Deposits from customers		7,349,607	4,275,563	11,625,170
Debt securities issued		-	-	-
Other liabilities			557,159	557,159
Total	-	7,349,607.00	4,832,722	12,182,329.33

30 June 2018	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks		351,074	3,702,825	4,053,900
Loans and receivables		5,048,873	-	5,048,873
Investment securities	2,421,290	-	10,185	2,431,475
Total	2,421,289.93	5,399,948	3,713,010.26	11,534,,247.78
Liabilities				
Deposits due to other banks		23,800		23,800
Deposits from customers		9,753,140	464,376	10,217,516
Debt securities issued		-	-	-
Other liabilities			400,748	400,748
Total	-	9,753,140.00	865,124	10,618,264.43

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The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non–trading financial assets and financial liabilities held at 30 June 2019 and 30 June 2018. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Increase (decrease) in basis points	Sensitivity of profit or loss	Sensitivity of equity
	Birr'000	Birr'000	Birr'000
30 June 2019	10%	48,381	48,381
30 June 2018	10%	27,067	27,067

(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 borrowings and cash and bank balances.

Foreign currency denominated balances

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Financial assets		
Cash and bank balances	1,637,300	1,300,588
Customer deposits	1,864,330	1,079,098
Margins held	306,648	199,451
	2,170,978	1,278,549
Net foreign currency exposure	(533,678.00)	22,039.10

Sensitivity analysis for foreign exchange risk

The sensitivity analysis for currency rate risk shows how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates at the reporting date.

The sensitivity of the Bank's earnings to fluctuations in exchange rates is reflected by varying the exchange rates at 10% as shown below:

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Impact on profit or loss		
10% change in exchange rates	(53,368)	2,204

4.7 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.

4.8 Capital management

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

4.8.1 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	1,412,523	1,125,425
Retained earnings	350,088	189,381
Legal reserves	455,111	334,168
	2,217,722	1,648,975
Risk weighted assets		
Risk weighted balance for on-balance sheet items	5,277,774	4,082,997
Credit equivalents for off-balance Sheet Items	1,352,702	784,452
	6,630,476.00	4,867,449.05
Total regulatory capital	8,848,197.88	6,516,423.89
Risk-weighted Capital Adequacy Ratio (CAR)	33%	34%
TIER 1 CARMinimum required capital	8%	8%
Excess	25%	26%

4.9 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.

4.9.1 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 date and the unobservable inputs have a significant effect on the asset or liability's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.9.2 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	2,526,886			2,526,886	2,526,886
Loans and receivables	7,609,536			7,609,536	7,609,536
Investment securities	21,613		21,613	-	21,613
Total	10,158,034	-	21,613	10,136,421.31	10,158,034 .31
Financial liabilities					
Deposits due to other banks	-			-	-
Deposits from customers	11,625,170			11,625,170	11,625,170
Other liabilities	557,159			557,159	557,159
Total	12,182,329	-	-	12,182,329.33	12,182,329.33

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	4,053,900			4,053,900	4,053,900
Loans and receivables	5,048,873			5,048,873	5,048,873
Investment securities	2,431,475		2,421,290	10,185	2,134,475
Total	11,534,248	-	2,421,289.93	9,112,957.85	11,534,248
Financial liabilities					
Deposits due to other banks	23,800			23,800	23,800
Deposits from customers	10,217,516			10,217,516	10,217,516
Other liabilities	400,748			400,748	400,748
Total	10,618,264	-	-	10,618,264.43	10,618,264.43

4.9.3 Valuation technique using significant unobservable inputs – Level 3

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

4.9.4 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.

4.9.5 Offsetting financial assets and financial liabilities

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

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	30 June 2019 Birr'000	30 June 2018 Birr'000
5 Interest income		
Interest on term loans	774,866	463,688
Interest on merchandise loans	3,244	10,585
Interest on overdrafts and others	123,985	96,022
Interest on bills	1,618	11,760
Interest on investment securities	89,514	65,142
Interest on deposit with local banks	15,785	60,730
Interest on deposits with foreign banks	6,036	4,478
	1,015,048	712,405

	30 June 2019 Birr'000	30 June 2018 Birr'000
6 Interest expense		
Interest on demand deposit	98	68
Interest on savings deposit	406,521	344,157
Interest on time deposit	124,623	97,507
Interest on short term borrowing		
	531,242	441,732

	30 June 2019 Birr'000	30 June 2018 Birr'000
7 Net fees and commission income		
Fee and commission income		
Commissions on letter of credit	383,721	18,976
Commissions on letter of guarantee	5,780	4,143
Commission on VISA transactions	-	1,399
Commission on MasterCard transactions	-	752
Service charge	35,056	287,790
Loan processing fee	9,936	2,903
Overdraft protection fee	372	364
Balance maintenance fee	3,837	3,196
Other fees and commission income	7,255	700
	445,958	320,223
Fee and commission expense		
Net fees and commission income	445,958	320,223

	30 June 2019 Birr'000	30 June 2018 Birr'000
8 Other operating income		
Postage and processing fees	5,119	2,700
Gain on foreign exchange	111,811	97,786
Sundry income	5,034	2,603
	121,963	103,089

	30 June 2019 Birr'000	30 June 2018 Birr'000
9 Loan impairment charge		
Loans and receivables - charge for the year (note 15a)		27,044
Loans and receivables - reversal of provision (note 15a)	(427)	
	(427)	27,044

	30 June 2019 Birr'000	30 June 2018 Birr'000
10 Impairment losses on other assets		
Other assets - charge for the year (note 17)		609
Other assets - reversal of impairment losses (note 17)	(14)	
	(14)	609

	30 June 2019 Birr'000	30 June 2018 Birr'000
11 Personnel expenses		
Salaries and wages	129,472	109,794
Staff allowances	12,367	13,313
Pension costs – Defined contribution plan	18,748	15,881
Bonus	22,860	16,671
Defined benefit expense	1,304	1,145
Other staff expenses	20,889	14,752
	205,641	171,556

	30 June 2018 Birr'000	30 June 2018 Birr'000
12 Other operating expenses		
Advertisement	2,664	2,218
Board expenses	3,184	1,655
Audit fee	322	230
Other expenses	15,695	10,372
Bank charges	667	829
Cleaning supplies	573	579
Consultancy	5,395	4,165
Donations	7,029	425
Correspondent charges	3,199	2,591
Entertainment	2,643	1,200
Fuel	2,692	2,332
Insurance	2,115	1,672
License fees	23,105	13,161
Maintenance	1,968	1,982
Rent	60,129	39,136
Stationery	4,939	5,221
Telephone	865	1,199
Internet	4,213	5,317
Transport	17,897	14,521
Visa	9,444	7,687
Mastercard	6,257	5,773
Impairment Expense	-	107
	174,996	122,372

	30 June 2019 Birr'000	30 June 2018 Birr'000
13 Company income and deferred tax		
13a Current income tax		
Company income tax	151,938	70,543
Prior year (over)/ under provision		
Prior Deffered Tax Adjustement		
Tax on foreign deposit interest		
Deferred income tax/(credit) to profit or loss	148	755
Total charge to profit or loss	152,087	71,298
Total tax in statement of comprehensive income	152,087	71,298

13b Reconciliation of effective tax to statutory tax

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit before tax		
IFRS Accounting profit	635,856	342,319
Tax calculated at statutory tax rate of 30 %	190,757	102,696
Add : Disallowed expenses		
Entertainment	793	360
Donation	309	127
Non Deductable Representation Allowance	-	-
Bad debt Expense	(4)	183
Penalty	70	76
Obligation (Severance pay temporary difference)	-	-
Current service cost (Severance pay)	391	344
Loss on disposal of non-current assets	16	8
Impairement loss	-	32
Provision for loans and advances as per IFRs	(128)	8,113
Depreciation and Amortization for IFRS accounting purpose	10,703	9,026
	12,149	**18,269**
Less :		
Depreciation and Amortizationfor tax purpose	9,852	8,100
Provision for loans and advances for tax NBE 80%	7,447	3,267
Gain on disposal of fixed assets	358	17
Interest income taxed at source- foreign at different rate	1,811	1,343
Dividend income taxed at source	-	-
Interest income taxed at source-NBE Bills	26,854	19,543
Interest income taxed at source-Local Deposit (5%)	4,736	18,219
Interest income taxed at source- foreign at different rate (5%)	(91)	(67)
	50,968	**50,422**
	151,938	**70,543**

13c Current income tax liability	30 June 2019 Birr'000	30 June 2018 Birr'000
Balance at the beginning of the year	84,042	105,259
Charge for the year:	151,938	70,543
Education tax		
Capital gains tax		
Income tax expense		
Prior year (over)/ under provision		
WHT Not utilised	(70)	(99)
Payment during the year	(84,042)	(91,661)
Balance at the end of the year	151,868	84,042

13d Deferred income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets of Birr 8,200 (6,919, 8,492) for the Bank have not been recognised as at 30 June 2018, 30 June 2017 and 1 July 2016 respectively because it is not probable that future taxable profits will be available against which they 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	13,848	10,829
To be recovered within 12 months		
	13,848	10,829

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):	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	(12,385)	(539)		(12,924.82)
Provisions				-
Unrealised exchange gain				-
Gain/Loss on equity investment	671		(4,099)	(3,428)
Post employment benefit obligation	1,556	391	558	2,506
Total deferred tax assets/(liabilities)	(10,158)	(148)	(3,541)	(13,848)

Deferred income tax assets/(liabilities):	At 1 July 2017 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2018 Birr'000
Property, plant and equipment	(11,287)	(1,098)		(12,385.36)
Provisions				
Unrealised exchange gain				
Tax losses charged to profit or loss				
Post employment benefit obligation	908	344	305	1,556.40
Total deferred tax assets/(liabilities)	(10,380)	(755)	305	(10,828.96)

14 Cash and cash equivalents	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash on hand	390,147	347,542
Balances with domestic banks	106,686	354,912
Balances with foreign banks	1,465,091	1,462,976
Cash reserve with NBE	586,000	520,000
Balances with National Bank of Ethiopia-payment and settlement account	(20,857)	1,368,655
Loss Allowance	(181)	(185)
	2,526,886	4,053,900

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	1,941,067	3,534,085
Non-Current	586,000	520,000
	2,527,067	4,054,085

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**
15 Loans and advances to customers		
Agriculture	60,835	87,957
Industry	876,254	1,338,064
Building and construction	401,837	308,468
Domestic Trade and Service	1,241,393	579,802
Export	867,440	757,404
Import	776,566	794,495
Transportation	980,585	160,930
Hotel and Tourism	2,188,386	362,812
Personal Loans - Customers	310,918	362,750
Personal Loans - Staffs	73,544	209,284
	-	255,557
Gross amount	7,777,758	5,217,523
Less: Impairment allowance (note 15a)	(168,223)	(168,650)
	7,609,536	5,048,873

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	2,483,255	1,739,284
Non-Current	5,126,281	3,255,725
	7,609,536	5,048,873

15a Impairment allowance on loans and advances to customers

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

Loss allowance for impairment	**As at 1 July 2017 Birr'000**	**Charge for the year Birr'000**	**As at 30 June 2018 Birr'000**	**Charge for the year Birr'000**	**As at 30 June 2019 Birr'000**
Agriculture loans	2,242	(519)	1,723	4,320	6,043.00
Building and construction loans	12,509	(4,402)	8,107	(4,794)	3,313.00
Consumer loans	1,638	(9)	1,629	(234)	1,395.00
DTS loans	4,503	4,091	8,594	(5,091)	3,503.00
Hotel loans	11,478	3,969	15,447	(6,500)	8,947
Export loans	87,481	(6,947)	80,534	(5,087)	75,447
Import loans	44,547	12,942	57,488	(9,302)	48,186
Industry loans	22,819	21,199	44,019	(26,658)	17,361
Transport loans	6,711	(2,606)	4,105	(217)	3,888
Staff loans loans	1,541	(674)	867	(728)	139
IFRS 9 day 1 adjustment		(53,864)	(53,864)	53,864	-
	195,469	(26,820)	168,650	(428)	168,222.00

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
16 Investment securities		
Available for sale:		
Equity Investments	21,613	12,421
Less individual allowance for impairment	-	(2,236)
	21,613	10,185
Loans and receivables:		
NBE Bills	3,204,570	2,419,377
Ethiopian Government bonds	2,077	2,034
Gross amount	3,206,647	2,421,411
Less individual allowance for impairment	(160)	(121)
	3,206,487	2,421,290

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	410,462	238,404
Non-Current	2,796,025	2,183,007
	3,206,487	2,421,290

The Banks hold equity investments in Eth-switch of 5.55% (30 June 2018: 5%) and measred at fair value and First Capital Leasing of 1% (30 June 2018: 1%)

	30 June 2019 Birr'000	30 June 2018 Birr'000
17 Other assets		
Financial assets		
Uncleared effects-local	2,480	2,851
Uncleared effects-foreign	729	693
Sundry Debtors	477,785	339,200
Prepaid staff asset	48,882	36,029
Claim on HO and Branches	(3)	17
Gross amount	529,874	378,790
Less: Specific impairment allowance (note 17a)	(20,901)	(20,950)
	508,973	357,840

The make up of sundry debtors is as shown hereunder:	30 June 2019 Birr'000
Prepaid interest	54,935
Prepayments	330,014
Staff emergency loan	31,273
Suspended interst as per NBE directive	43,947
Others	17,615
	477,785

Non-financial assets		
Inventory	13,311	9,796
	13,311	9,796
Gross amount	**522,284**	**367,636**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	55,495	191,214
Non-Current	466,789	177,501
	522,284	368,714

17a 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	20,950	19,263
(Reversal)/charge for the year (note 10)	(49)	1,687
Balance at the end of the year	20,901	20,950

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17b Inventory

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Stationary stock account	6,431	4,131
Other stock	2,386	2,236
Debit Cards, CPOs, Drafts and CDTs	887	122
Uniform stock	3,432	2,973
Computers - stock	173	-
Office Equipment-Stock	1	-
Cheque book stock	-	334
	13,311	9,796

	Computer software Birr'000	Capitalized expenditure Birr'000	SWIFT software Birr'000	Software under progress Birr'000	Total Birr'000
18 Intangible Assets					
Cost:					
As at 1 July 2017	73,366	8,379	578	8,021	90,344
Acquisitions	15,208	-	-	(1,290)	13,918
Internal development				-	-
Transfer from property, plant and equipment				-	-
As at 30 June 2018	88,574	8,379	578	6,731	104,262
As at 1 July 2018	88,574	8,379	578	6,731	104,262
Acquisitions	38,571	-	-	(6,213)	32,358
Internal development				-	-
Transfer from property, plant and equipment				-	-
As at 30 June 2019	127,145	8,379	578	518	136,621
Accumulated amortisation and impairment losses					
As at 1 July 2017	32,087	8,379	578	-	41,044
Amortisation for the year	9,553			-	9,553
Impairment losses				-	-
As at 30 June 2018	41,640	8,379	578	-	50,597
As at 1 July 2018	41,640	8,379	578	-	50,597
Amortisation for the year	11,395			-	11,395
Impairment losses				-	-
As at 30 June 2019	53,035	8,379	578	-	61,992
Net book value					
As at 30 June 2018	46,934	-	-	6,731	53,665
As at 30 June 2019	74,111	-	-	518	74,629

	Work in progress Birr'000	Motor vehicle Birr'000	Computers Birr'000	Office equipment Birr'000	Total Birr'000
19 Property, plant and equipment					
Cost:					
As at 1 July 2017	98,046	61,462	67,344	53,204	280,056
Additions	307,287	3,723	7,358	7,554	325,922
Disposals	-	-	(550)	(99)	(649)
Reclassification	-	(34)	5,917	4,269	10,152
As at 30 June 2018	405,333	65,151	80,069	64,927	615,481
As at 1 July 2018	405,333	65,151	80,069	64,927	615,481
Additions	150,672	24,186	14,817	20,953	210,628
Disposals	-	(1,344)	-	-	(1,344)
Reclassification	-	-	787	5,057	5,844
As at 30 June 2019	556,005	87,993	95,673	90,937	830,609
Accumulated depreciation					
As at 1 July 2017	-	15,308	29,732	20,536	65,575
Charge for the year	-	6,124	7,632	6,776	20,532
Impairement		-	31	47	78
Reclassification			(590)	(125)	(715)
Disposals	-	-	(372)	(83)	(455)
As at 30 June 2018	-	21,432	36,432	27,150	85,014
As at 1 July 2018	-	21,432	36,432	27,150	85,014
Charge for the year	-	7,017	9,378	7,885	24,280
Impairement		-	-	-	-
Reclassification		111	-	-	111
Disposals	-	(1,245)	-	-	(1,245)
As at 30 June 2019	-	27,315	45,810	35,035	108,160
Net book value					
As at 30 June 2018	405,333	43,719	43,637	37,777	530,466
As at 30 June 2019	556,005	60,678	49,863	55,902	722,448

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	30 June 2019 Birr'000	30 June 2018 Birr'000
20 Deposits due to other banks		
Balances due to other banks	-	23,800
	-	23,800

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	-	22,800
Non-Current	-	1,000
	-	23,800

	30 June 2019 Birr'000	30 June 2018 Birr'000
21 Deposits from customers		
Demand deposits	3,968,915	2,674,304
Time deposits	1,290,134	1,031,115
Savings deposits	5,834,267	6,047,721
Retention deposits	225,206	217,293
Other deposits	306,648	247,083
	11,625,170	10,217,516

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	9,231,162	8,082,848
Non-Current	2,394,008	2,134,668
	11,625,170	10,217,516

	30 June 2019 Birr'000	30 June 2018 Birr'000
22 Other liabilities		
Financial liabilities		
Accrued leave	12,308	9,719
Cashier payment orders	119,201	173,016
Dividend payable	12,200	11,586
Exchange payable to National Bank of Ethiopia	10,419	6,962
Old drafts outstanding	38,650	13,738
Directors Share on Profit	1,201	771
Claim on HO and Branches	-	-
	193,979	215,792
Non-financial liabilities		
Taxes and stamp duty charges	12,606	8,589
Miscellaneous	302,224	141,190
Unearned income	26,350	18,737
Provision for Bonus	22,000	16,440
	363,180	184,956
Gross amount	**557,159**	**400,748**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	543,419	394,738
Non-Current	13,740	6,010
	557,159	400,748

	30 June 2019 Birr'000	30 June 2018 Birr'000
Retirement benefit obligations		
Defined benefits liabilities:		
– Pension prize (note 26a)	8,352	5,188
Liability in the statement of financial position	8,352	5,188
Income statement charge included in personnel expenses:		
– Pension prize (note 26a)	1,304	1,145
Total defined benefit expenses	1,304	1,145
Remeasurements for:		
– Pension prize (note 26a)	2,559	999
	2,559	999

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

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current		
Non-Current	2,559	999
	2,559	999

23a Pension prize

The pension prize is applicable to employees in a managerial position that have served the Bank for at least 10 years and retires at 60 years. At retirement, such employee is entitled to receive 3 months' final salary or 5000 Birr whichever is higher.
Below are the details of movements and amounts recognised in the financial statements:

	30 June 2019 Birr'000	30 June 2018 Birr'000
A Liability recognised in the financial position	8,352	5,188

B Amount recognised in the profit or loss	30 June 2019 Birr'000	30 June 2018 Birr'000
Current service cost	869	625
Interest cost	740	520
	1,609	1,145

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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	613	1,281
Remeasurement (gains)/losses arising from experience	1,247	(263)
Tax credit /(charge)	-	-
	1,860	1,018

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	5,188	3,025
Current service cost	869	625
Interest cost	740	520
Remeasurement (gains)/ losses	1,860	1,018
Benefits paid	(305)	
At the end of the year	8,352	5,188

23 Retirement benefit obligations

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)		
Rate of Pension Increase(p.a)	11.25%	12.54%
Average Rate of Inflation (p.a)	12%	12%
	10%	10%

ii) Mortality in Service
Mortality rates are commonly set with reference to standard tables published by reputable institutions (such as the Actuarial Society of South Africa and the Central Statistics Agency ("CSA")) who have access to statistically significant data from which to derive mortality rates.

Sample mortality rates are as follows:

Age	Males	Females
20	0.0031	0.0022
25	0.0030	0.0023
30	0.0036	0.0031
35	0.0041	0.0028
40	0.0052	0.0032
45	0.0045	0.0043
50	0.0063	0.0063
55	0.0098	0.0098
60	0.0154	0.0154

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 10% at the youngest ages falling with increasing age to 2.5% at age 45.

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

Impact on defined benefit obligation and Salary

		30 June 2019		30 June 2018	
	Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	1.0%	7,693	9,075	1,140	1,699
Salary Increase	1.0%	9,063	7,692	1,697	1,440

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

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
24 Ordinary share capital		
Authorised:		
Ordinary shares of Birr 1000 each	1,412,098	1,125,000
Issued and fully paid:		
Ordinary shares of Birr 1000 each	1,412,098	1,125,000

25 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 attributable to shareholders	483,770	271,021
Weighted average number of ordinary shares in issue	1,217	947
Basic & diluted earnings per share (Birr)	398	286

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 2017:nil, 1 July 2016: nil), hence the basic and diluted loss per share have the same value.

	30 June 2019 Birr'000	30 June 2018 Birr'000
26 Retained earnings		
At the beginning of the year	189,381	194,857
Profit/ (Loss) for the year	483,770	271,021
Opening balance adjustment		(1,385)
Divdends paid	(190,766)	(197,727)
Income tax paid	-	-
Directors share on profits	(1,201)	(771)
Re-measurement gains on defined benefit plans (net of tax)		
Transfer to regulatory risk reserve	(120,942)	(67,755)
Transfer to legal reserve	(10,154)	(8,859)
At the end of the year	350,088	189,381

The opening balance adjustment represnts the net effect reinstaing pervious year accounts in accordance with IFRS 9.

27 Legal reserve	30 June 2019 Birr'000	30 June 2018 Birr'000
At the beginning of the year	334,168	266,413
Transfer (from) / to retained earnings	120,942	67,755
At the end of the year	455,111	334,168

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 Birr'000	30 June 2018 Birr'000
28 Regulatory risk reserve		
At the beginning of the year	100,987	38,264
Transfer (from) / to retained earnings	10,154	62,723
At the end of the year	111,140	100,987

30 June 2019	Suspended interest	Excess provision as per NBE	Total
Balance after provsisioning	86,103	65,936	152,039
Taxation @30%	(25,831)	-	(25,831)
	60,272	65,936	126,208
Balance transferred to legal reserve	(15,068)	-	(15,068)
	45,204	65,936	111,140
Balance brought forward			100,987
Current period addition			**10,154**

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 incurred 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 incurred 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 the incurred 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.

	30 June 2019 Birr'000	30 June 2018 Birr'000
28 Fair value reserve (equity investments)		
At the beginning of the year	-	-
Transfer (from) / to Revaluation surplus	11,428	-
At the end of the year	11,428	-

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
29 Cash generated from operating activities			
Profit before tax		635,856	342,319
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	19	24,280	20,532
Amortisation of intangible assets	18	11,395	9,553
Gain/(Loss) on disposal of property, plant and equipment	19	(1,141)	(29)
Impairment on loans and receivables	15	(427)	27,044
Impairment on other assets	17	(14)	609
Impairment on fixed assets		-	107
Retirement benefit obligations		1,304	1,145
Changes in working capital:			
-Decrease/ (Increase) in loans and advances to customers	15	(2,560,235)	(1,032,690)
-Decrease/ (Increase) in other assets	17	(154,599)	(91,927)
-Increase/ (Decrease) in other liabilities	22	155,367	122,840
Proceeds/ (Repayments) of deposits from banks	20	(23,800)	19,099
Proceeds/ (Repayments) of deposits from customers		1,407,654	2,211,471
		(504,359)	1,630,073

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	1,240	223
Net book value of property, plant and equipment disposed (Note 20)	(99)	(194)
Net Gain/(loss) on sale or disposal of non-current assets	1,141	29

30 Related party transactions
Zemen Bank is a privately owned commercial bank
A number of transactions were entered into with related parties in the normal course of business. These are disclosed below:

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
Mgt Salaries and other short-term employee benefits	6,011	6,920
Post-employment benefits	-	
Termination benefits	-	
Sitting allowance	304	319
Board Rumeneration and salary	2,165	1,426
Other expenses		
	8,480	8,666

Compensation of the Bank's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefits plans.

31 Directors and employees
i) The average number of persons (excluding directors) employed by the Bank during the year was as follows:

	30 June 2019 Birr'000	30 June 2018 Number
Manegerial	109	96
Clerical	558	416
Non-clerical	199	193
Contractual	19	19
	885	724

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

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.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Performance guarantees and Letters of credit	355,317	174,021
	355,317	174,021

33 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:

The Bank has commitments, not provided for in these financial statements, of Birr 127,806 (30 June 2018: Birr 77.357 million)

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
No later than 1 year	65,393	18,765
Later than 1 year and no later than 2 years	40,107	26,247
Later than 2 years but not later than 5 years	22,306	32,345
Total	127,806	77,357

34 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.

NOTES

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