ANNUAL REPORT 2014/15

BAANKII HOJII GAMTAA OROMIYAA (W.A.)
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COOPERATIVE BANK OF OROMIA (S.C.)

CBO IN MEDIA


2Merkato.com
Ethiopia: CBO Secures 602 Million Birr Profit
Oromia Co-op Bank to Offer Interest Free Services
CBO grosses 602 mln birr profit
Private Banks Raise 11 Million Birr for GERD
ODUU
Capital
CBO's deposit grows
CBO profits go through the roof

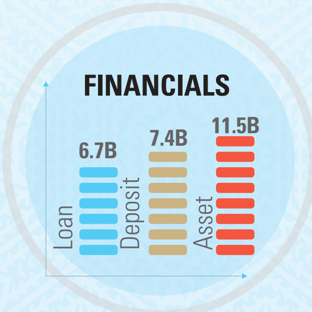
REVIEW OF 2014/15

24/7

Interest
Free Banking

Birr
481 Million
π
Profit

Agency
Banking
helloCash



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MESSAGE FROM CHAIRPERSON BOARD OF DIRECTORS

"We were able to consistently deliver value to our share-holders further substantiating our robust business model."

Distinguished shareholders, it is my pleasure to present to you our Bank's performance for the fiscal year 2014/15. The year marked 10th year of our establishment, the year our Bank successfully sustained its growth momentum, and various major achievements.

I will highlight some of the events which characterized the year, their impacts on our businesses, as well as our Bank's major achievements within the operating year.

Global growth remains moderate, with uneven prospects across the main countries and regions. In 2014/15, it is estimated to be 3.45%, according to The World Economic Outlook (WEO). Relative to last year, the outlook for advanced economies is improving, while growth in emerging market and developing economies is lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

The year 2015 marks the closing of a five-year development plan- GTP I, for Ethiopia. The economy has continued a remarkable expansion with the gross domestic product (GDP) growing by an average +10% in the past decade, compared to a 5.4% average throughout Sub-Saharan Africa. The share of domestic savings has grown over past years which currently stands at over 22% of the GDP, attributed to expansion of financial service accessibility. Owing to a coordinated prudent fiscal and monetary policy stance, inflation has been contained to single digits.

Yet, Export remained a challenge to the economy, and its performance has failed to meet government targets in the reviewed fiscal year. Actual performance results of exports were far from projections forecasted by the GTP Policy Matrix. A multitude of factors are said to have affected export trading, viz lack of manufacturing inputs supply, sub-capacity production, challenges in international price competition and oversupply of export products to the local market.

Against all odds, we were able to consistently deliver value to our shareholders further substantiating our robust business model. Our strategies for heightening number of accounts and deposits, diversifying the business mix, expanding service accessibility, upgrading products/services, and robust fund management have all worked well. Key financial indicators remained strong. Good earnings, coupled with efficient capital management, have resulted in a healthy growth to the Bank's asset, year-on-year. We have continued to construct buildings in regional areas, invest in technology and in human capital to support business growth, extend our reach and deepen existing customer relationships.

We recorded a gross profit of birr 481 million for the fiscal ended June 30, 2015. Our loan portfolio grew by 82% from previous year to reach birr 6.74 Billion that is attributed to an incredible hike in deposits, which shown a net increment of birr 1.92 billion in this fiscal year alone. The bank, to deepen its financial inclusion agenda across the country, has increased its presence by opening 35 new branches in the fiscal year, out of which 60% are in outlying areas.

It was a matter of great pride for us when the Bank was internationally accredited and awarded for Excellence & Leadership at the Madrid, Spain. The distinction brought together businessmen from many countries worldwide, awarding 25 companies from different industrial and commercial branches. CBO is one of these global companies nominated for this prestigious award.

By filling the core financial services needs of our customers, we make sure that our growth is customer-driven and is connecting them to the real economy in the markets where we operate.

I would like to extend our sincere gratitude to all our stakeholders including our customers who have rested great trust in us and in our services. We would also like to thank our management and employees, our partners, correspondents, and all other stakeholders for their continued commitment to service and excellence.

I congratulate us all in advance as we await a very laudable result in the year to come.

Belachew Hurrissa

STATEMENT OF THE A/PRESIDENT

Distinguished Stakeholders, It is my honor to present to you our Bank's performance during the fiscal year 2014/15. In this fiscal year, we succeeded in reinforcing our profitability momentum, even in the face of a stiff competition in financial market.

Our Bank was recognized, and awarded the Excellence and Leadership honor, in recognition of our leadership achievements, commitment to excellence, and outstanding success.

With conscientious implementation of our strategic initiatives, which reflected in an improved balance sheet and diversified earnings stream, our Bank ended the financial year with a-record-profit, and set-up various strategic initiatives reinforcing a viable platform for a much stronger performance in the coming years.

The financial position of the bank recorded significant improvement with a 35% growth in the deposit base and 82% growth in the loan book to reach birr 7.37 billion and birr 6.74 billion in respective order. Consequently, our balance sheet recorded a robust growth of 56% over the previous year, reaching birr 11.46 billion. This consistent growth in our balance sheet over the years helps us to maintain our position as one of the growing bank in the country.

In this past FY, we adopted a very aggressive approach to market and ensure focused implementation of our strategic priorities, to drive achievement of our corporate targets, basically deposit, number of accounts, lending, earnings, and above all, enhancing our cultural values.

The Bank's total income increased by 39% to reach birr 1.23 billion during 2014-15, compared to birr 882 million last year, driven by healthy growth in the Bank's core income streams.

The operating expenses grew by 83.5% to birr 745 million from birr 406 million last year, which is ascribed to increase in number of branches and overall operation of the bank. As a result, operating profit increased to Birr 481 million from 476 reported last year.

The healthy growth in business and earnings has resulted in an all-round improvement in various financial parameters and ratios during the year. Earnings per Share (EPS), Return on Equity (RoE), and Return on Asset (RoA) was 40%, 42%, and 4% in respective order.

During this year our Bank expanded its distribution network from 106 branches as on June 30, 2014 to 141 branches as on June 30, 2015. Our Bank has been working on a number of initiatives to promote Financial Inclusion across rural and semi-urban areas that have limited access to the formal banking system. As of June 30, 2015 our Bank had 3/4th of its branches in rural and semi urban areas, which is the exception in the industry.

In order to provide our customers greater choices, flexibility and convenience, CBO continued to make significant headway in its multichannel servicing strategy, by floating e-banking, interest-free banking, and agency-banking services.

We've received another international award successively, this year from Global Trade Leaders Club, The prestigious International Award for Excellence and Leadership-2015, in recognition of our leadership achievements, commitment to excellence, and outstanding success.

Across all of our businesses, we have reformed and simplified processes to deliver a faster, better client experience, and are investing in our technology and innovation to shape the future with new products and services.

On behalf of the management, I want to appreciate our valued customers who have provided us the opportunity to continue to deliver value to them, our shareholders for their unwavering support, and our employees for their commitment, resilience and dedication to our Bank.

Muluneh Disassa

CORPORATE INFORMATION

Establishment

The genesis of CBO is directly linked to the co-operative movement in the country. The cooperative movement of the country had experienced different systemic and socio-economic difficulties in previous regimes. Lack of capital in the cooperative sub sector and non- availability of genuine rural and agricultural financing system in general is one of the critical factors attributed to the failure histories of the cooperative sector.

Cooperative Bank of Oromia (S.C.) was registered commercially on 29th October, 2004 in accordance with article 304 of Commercial Code of Ethiopia. It was established in line with proclamation number 84/1994 with authorized capital of ETB 300 million. It commenced operation on 8th March 2005, with paid up share capital of birr 112 million.

Salient Features

- The first bank of its kind in the country, giving due emphasis for cooperative movement, and majorly owned by cooperatives.
- Financial Inclusion:- giving special importance to rural areas and financially unpreviledged.
- Special Products, or products with distinctive features.
- Broad Ownership Base.
- Socio- cultural values, and CSR (Corporate Social Responsibility) embedded in our philosophy.

Our Vision

- To be competent, reputable and socially responsible Bank in Africa.

Our Mission

The mission of CBO is to provide efficient banking services with special emphasis to cooperatives so as to maximize shareholders' value through use of state-of-the art technology, competent employees, and visionary leaders. We believe rooting our foundation in communities would bring our success.

Core Values

Customer focused

- We deliver our promises to customers
- We respond flexibility to new challenges and opportunities
- We are open to constructive feedbacks
- We grow through customers' growth

Integrity

- We use open and transparent procedures
- We comply with ethical standards
- We work for greater good of the bank

Team Work

- We care about one another
- We work together
- We are open and respect of diversity of viewpoints

Continuous Learning

- We learn from our experiences
- We encourage innovation
- We continuously benchmark best practices

We value communities

- We assume social responsibilities
- We encourage community based institutions
- Respect unique attributes of communities

Employees

- We support employees to succeed
- We involve, engage, and empower employees
- We promote belongingness

Services rendered By the Bank

Deposit

- Savings Deposit
- Non-Interest bearing saving Deposit
- Demand Deposit
- Fixed Time Deposit
- CPO (Certified Payment Order, endorsable and valid for six months)
- Foreign currency account
- ECX (Ethiopian commodity Exchange) Related Account
- Special Saving Account
- Special Demand Deposit

Loans and Advances

- Overdraft Facility
- Overdrawal
- Merchandise Loan Facility
- Import Letter of Credit Facility
- Pre-Shipment Export Credit Facility
- Revolving Export Credit Facility
- Letter of Guarantee Facility
- Term Loan
- Import Letter of Credit Settlement Loan
- Agricultural Term Loan
- Construction Machinery Loan
- Equipment/Machinery Lease Financing

Trade (International Banking) Services/ Products

- Documentary Letter of Credit (LC)
- Documentary Collection
- Advance payment
- Consignment basis payment
- Foreign Bank Guarantee
- FOREX (Remittance, Cash foreign currency buying and selling, and Accept Foreign Bank cheques for Deposit)

Interest Free Banking

- Wadiah Current/Saving Accounts
- Mudharabah Unrestricted/Restricted Investment Accounts
- Wadiah special Accounts
- Hadji - Umraha Saving account
- Murabaha Financing
- Ijaraha Financing
- Salam
- Istisna
- Diminishing Musharakah
- Kafala (Letter of Guarantee Facility)

Electronic Banking

- SMS Banking
- Mobile Banking
- Internet Banking
- ATM/POS

Local Money Transfer

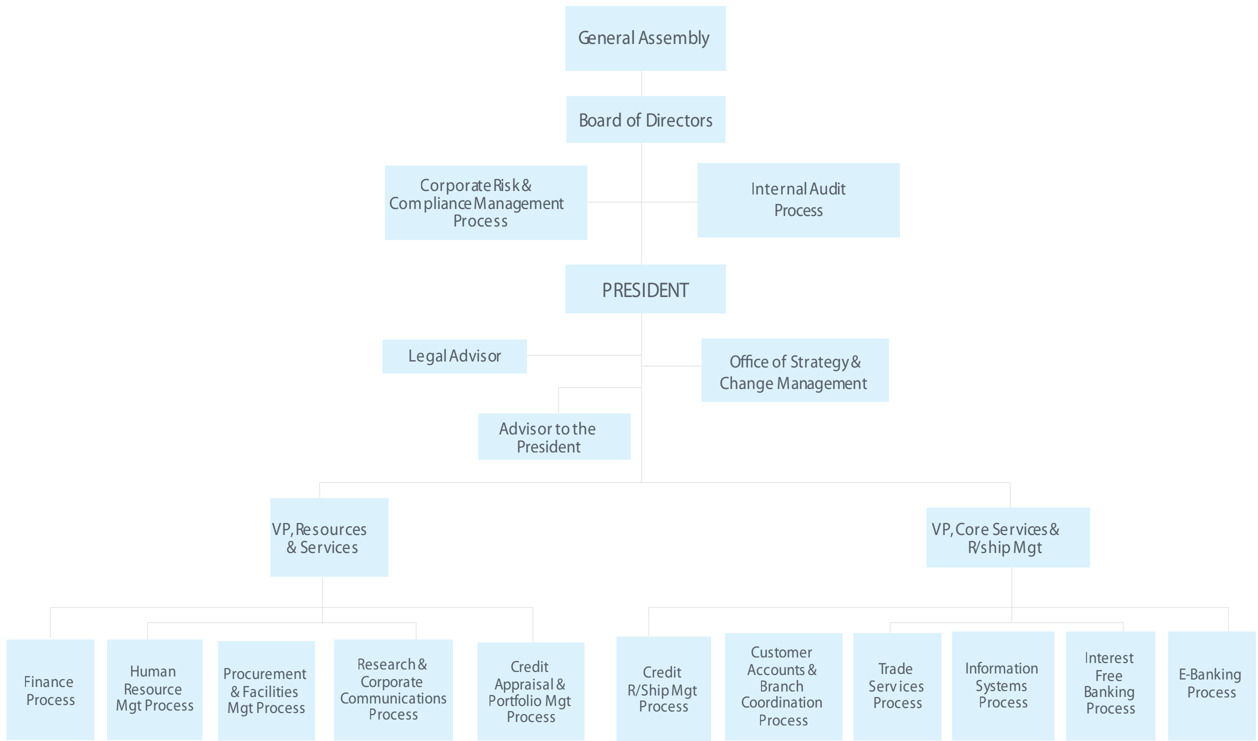
Others

CORPORATE
GOVERNANCE

Introduction

Our corporate governance reveals on how the Board has functioned and the structures of governance. The Bank functions under a governance framework that enables the Board to discharge its role of providing oversight and strategic counsel with its responsibility to ensure the Bank's compliance with regulatory requirements and acceptable risk.

Governance Structure



Shareholders' Meeting

Shareholders' meetings duly convened and held in line with the Bank's Articles of Association and existing statutory and regulatory frameworks. It is conducted through a fair and transparent process and also serves as a medium for promoting interaction between Shareholders, the Board, and Management.

Board of Directors

The primary obligation of the Board of Directors is to advance the prosperity of the Bank by collectively directing the Bank's affairs, while meeting the appropriate interests of Shareholders and stakeholders. The Board is a representative of the General Assembly (GA) which is the bank's highest decision making body responsible for governance. The Board sets the strategy and oversees it, ensures that the bank manages risk effectively, monitors financial performance, and ensures that the bank is on the right growth truck. In fulfilling its responsibilities, the Board is supported by management, who are required to implement the plans and strategies approved by the Board. The Board monitors management's progress on an ongoing basis. The Board of Directors of CBO consisted of seven (7) active members whose names with their brief profile are listed below:

Belachew Hurrissa
Chairperson,
Board of Directors

Obbo Belachew has over 30 years of experience in livestock industry development in Ethiopia and Eastern Africa. He held M.Sc. in Agricultural Economics (University of Aberdeen, UK), and B.Sc. Agriculture Honors in Food Science Technology and Nutrition (Punjab Agricultural University, India). Obbo Belachew had served in different capacities in Diary Development Enterprise, Investment Commission, Federal Livestock Marketing Authority, Ministry of Agriculture, USAID SPS-LMM program, and others; and is an author of various technical papers on livestock and livestock products. Previously, he headed board of directors of Elemtu Integrated Milk Industry; and currently, he's a member of board of directors in three share companies. He has been serving as a member of BoDs of CBO since December 2012.

Obbo Dagnachew held B.A. Degree in Organizational Management, and Diploma in Law. He has been serving as a member of BoDs of the bank since December 2012. He is the Director of Oromia Cooperative Promotion Agency; and formerly had served as a Vice Manager of Oromia Road and Transport Authority, Head of Zonal Administrations, and on other capacities.

Dagnachew Shiferaw
Deputy Chairperson,
Board of Directors

Adde Adanech is an Executive Director of Oromia Development Association (ODA). She holds Master in Transformational Leadership and Change, and LLB Degree in Law. Formerly, Adde Adanech worked for Ethiopian Parliament, Public Mobilization and Labor Affairs Bureau, and Justice Bureau of Oromia. She had extra regular experiences as a board member of Oromia Credit and Saving Share Company (OCSSCo), Madda Walabu University, Oromia Investment, Oromia Forest and Forest Wild Life Protection, Executive Committee of Ethiopian Women Parliamentarians, and Chairperson of Oromia Women's Association. She has been serving as a member of BoDs of CBO since November 2012.

Adanech Abiebie
Director

Obbo Dejene is the General Manager of Bacho Waliso Farmers Cooperative Union. He placed the Union to the level of being exemplary and flourishing in the sector. He has been serving as a member of BoDs of CBO since December 2012. He earned M.A. Degree in Agricultural Economics (Haramaya University), and B.A. Degree in Economics (Alpha University College).

Dejene Hirpha
Director

Dr. Mulugeta held PhD in Political Science (Technical University of Dortmund, Germany), Masters in Social Work (AAU), and B.A. Degree in Public Administration (AAU). He has been serving as a member of BoDs of CBO since December 2012. He had also been a member of the board from January 2010 to November 2012. Dr. Mulugeta was the General Manager of the Oromo Self Help organization (OSHO); and he had been an Executive Director of Oromia Development Association (ODA). He had also been serving in various institutions including public, development association, self-help group, University, real estate development, and others on various positions. As extra regular work, he concurrently had served as a board member to Oromia Credit and Saving S.Co., Rift Valley University College, Biftu Dinsho P.L.C., humanitarian advocacy groups, development task forces, and NGO networks. Currently, he's a Vice President of the Ethiopian Civil Service University.

Mulugeta Debebe (PhD)
Director

Adde Serkalem has been serving as a member of BoDs of the bank since December 2012. She holds B.A. Degree in Economics (AAU), and Diploma in Accounting. She was The Auditor General of Oromia National Regional State. In charge of the Office, she gained extensive auditing and accounting experience. She had also been serving on various capacities in Elemtu Integrated Milk Industry S.C., Oromia Pipe Factory, Oromia Water Works Design and Supervision Enterprise, Oromia Finance and Economic Development Bureau, and Oromia Rural Road Authority. She had noticeable participation, both at national and regional level, in policy, legal, and related representations.

Serkalem Assefa
Director

Obbo Tilahun held Masters of Business Leadership (University of South Africa/UNISA), and B.A. Degree in Business Management (AAU). He's now serving as A/Executive Officer-Operations in Oromia Insurance S.C. He had also served in other insurance companies on various capacities, as a Vice-president of Jimma Chamber of Commerce, and in other private institutions. He is serving as a member of BoDs of CBO since December 2012.

Tilahun Tadesse
Director

BOARD sub-committees

The Board carries out its critical function through its standing committees, each of which has a Term of Reference that clearly defined its purpose, membership, duties and responsibilities, and frequency of meetings, and reporting. These committees assist in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the bank's objectives and obligations to its stakeholders. The Board's four standing sub-committees are strategy, budget, and plan sub-committee, loan approval sub-committee, audit sub-committee, and loan review and risk management sub-committee.

The Board SECRETARY

Obbo Teshome Argeta is serving as the Secretary of board of directors of Cooperative Bank of Oromia since December 2013. The Secretary has the primary duty of assisting the Board and Management in developing and implementing good corporate governance standards. The Secretary ensures that there is timely and appropriate information dissemination to the Board.

Executive
MANAGEMENT

Fitsum Zelalem
A/Director, Trade Service

Hassen Abdi
Manager, Interest Free Banking

Gizaw Hailu
A/VP, Core Services& Relationship Mgt

Belete Wakbeka
Director, Credit Customers R/ship Mgt

Ayele Cherinet
Manager, E-Banking

Hundessa Mulatu
A/Director, Customer Account & Branch Coordination

Addis Assefa
Director, Information System

Mulatu Regassa
A/Chief Strategy & Change Mgt

Muktar Aliye
Advisor to the President

Muluneh Disassa
A/President

Abera Terefe
Chief Legal Advisor

Gemeda Mi'esso
Chief Risk & Compliance Officer

Tafesse Fana
A/Director, Internal Audit

Sura Saketa
Director, Procurement & Facilities Mgt

Fayera Ejeta
A/VP, Resources & Services Mgt

Liko Tolessa
Director, Human Resource Mgt

Damessa Urgessa
Director, Research & Corporate Communications

Lemessa Welteji
Director, Credit Appraisal & Portfolio Mgt

Samuel Girma
Director, Finance

CORPORATE
SOCIAL RESPONSIBILITY

CBO has persistently been discharging its social responsibilities for a better life within the communities.

As always, corporate social responsibility helps the Bank to maintain the trust of our communities and customers. It's an opportunity for us to build better relationships with all our stakeholders by paying closer attention to how we fulfill our social, economic, environmental and ethical responsibilities. It's embedded in our values and informs how we deliver on our goals and commitments.

Our bank uses different approaches as corporate entity, to accomplish its social responsibility, and donation is one of it. In the FY 2014/15 we were involved in various social aspects via donations and sponsorships to ends like supporting disabilities, community development, environmental protection efforts, and other humanitarian endeavors.

The Bank promotes initiatives that preserve, restore and enhance environment, ecological balance, and natural resources. Accordingly, the Bank made financial support to 'Action For the Needy in Ethiopia' Programme for emergency water development and provision of safe water in Guji and Borana Zones of Oromia.

In this operational year, CBO had made a purchase of birr five million Bond and a donation of birr one million for the construction of Grand Ethiopian Renaissance Dam (GERD). We had also offered a support to Togo Wuchale and Sendafa Town Administrations on various developmental ends like financial support to purchase fire truck, and financial aid for elderly care and assistance.

The bank also provided financial support to support humanitarian endeavors viz: 'Ethiopian Red Cross', 'Nehemiah Autism Center', and others.

More generally, the bank participates in the development endeavor of the country via various mechanisms. At CBO, therefore, socially responsible approach is at the heart of what we do.

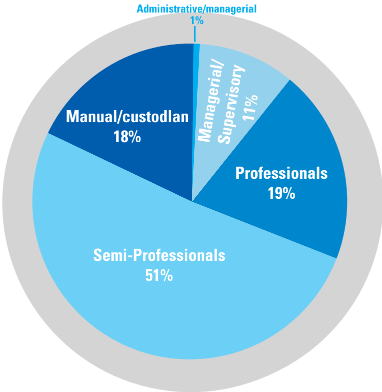
HUMAN
RESOURCES MANAGEMENT

Our people are evidently motivated to go the extra mile for our customers.

The Human Resource (HR) function in the Bank remains focused on creating and developing human capital through improving organisational effectiveness, building learning culture, increasing employee to support its growing business.

At the fiscal year ended June 30, 2015, our headcount rose to **1,957** employees from 1,636 in 2014 exhibiting a 14.65% increment, as we welcomed new, talented employees.

On the other hand, the occupational distribution of the bank's workforce seems is indicated here:



Learning and DEVELOPMENT

In FY 2014/15, we continued our tailored training programmes, designed to enhance the professional skills of those who work on different operations. Employees were adequately trained across all levels and functions to acquire the skills and industry insight they need to become competent professionals.

The training programmes aimed to increase the effectiveness and efficiency of teams working on customer handling and implement the processes to be followed for first-rate relationship management. In this operational year, the ratio of Staff training and development to total employee is **122%,** which shows our commitment to invest in our people. Our people are evidently motivated to go the extra mile for our customers, which creates a stronger organization.

CREDIT
MANAGEMENT

As on 30th June 2015, the bank's credit portfolio stood at ETB **6.74** billion as against ETB 3.71 billion as on 30th June 2014, registering a growth of 81.67%. The philosophy of the Bank's relationship with borrowers has been the commitment to support them, not only through various financial products but also by extending non-financial services to grow their businesses.

+85% growth in lending

Sector specific, domestic trade & services took the largest portion of 80%, followed by foreign trade with a share of 14%. Additionally, the Non-Performing Loans (NPLs) ratio of the bank stood within acceptable range as NPL to Total Asset 1.68, and NPL to Total Loan 2.89 depicts the same.

Table 1: Outstanding Loan (Net) by Type, and its Growth

Description	Balances (in Millions of ETB)		Growth	
	Jun-2015	Jun-2014	Amount (Millions of ETB)	%
Agricultural Production	106.75	47.3	59.45	125.69
Domestic Trade & Service	5,243.22	2,952.9	2,290.32	77.56
Manufacturing	83.64	47.2	36.44	77.20
Foreign Trade (T/L & OD)	893.69	474.4	419.29	88.38
Building & Construction	61.74	25.0	36.74	146.96
Merchandize	193.87	94.7	99.17	104.72
Other Loan	155.42	77.9	77.52	99.51
Provision for loss loans & advances	(172.29)	(68.4)	(103.89)	151.89
Total	**6,566.04**	**3,650.1**	**2,915.64**	**79.86**

Our customers value our product portfolios, and profound customer relationship management approach. For us, a strong customer focus and high-quality advice are at the very heart of the customer relationship. In the same way, CBO continued to support the economy by funding various economic sectors. A brief look of sectors financed by the bank within the year under review seems:-

- **Agriculture and Agro-processing:** Agriculture is the backbone of Ethiopian economy, and thus CBO has been supporting agricultural production and processing that enabled our customers to invest throughout the entire agricultural value chain including modernizations. Innovative business models in agriculture technology will drive the shift from a conventional form of agriculture to a modern production and distribution system.

- **Domestic Trade and Services:** To meet a growing demand of domestic trade and services, the Bank has disbursed enormous sum of funds to the sector which comprises wholesaling, retailing, hotel and tourism, transportation, education, health, and others.

- **Manufacturing:** At CBO, we understand that a strong economy is built on investing in the future. That is why, as part of our ongoing commitment to the manufacturing sector, we are supporting manufacturers. The Bank has rendered loans that are to be used for purchase of raw materials, intermediate goods, for work in progress, for purchase of machinery/equipment, and others.

- **Foreign Trade:** Within the Fiscal Year under consideration, CBO has financed export and import of various goods. Export loans are rendered to facilitate export of agricultural, industrial, minerals and other products, whilst goods like raw materials for industries, machineries, vehicles, building materials, plastics, textiles, pharmaceuticals, household goods, and others are major import products financed by the bank to borrowers working in the sector.

- **Building and Construction:** CBO within FY 2014/15 has offered finances to assist the construction of a new buildings and additions, for construction of infrastructure, purchase of new construction machineries, and other related activities.

DEPOSIT
AND CUSTOMER'S ACCOUNT

Total deposits grew from ETB 5.45 billion in 2013/14 to ETB **7.37** billion in 2014/15, a growth of 35% YoY. Saving deposit portfolio was up 43% with demand deposit growing by 27% compared with last year. We have sustained our funding mix with costless deposit (demand-deposit) constituting 44% of the bank's total deposit.

The continuous increment in deposit base reflects strong trust and confidence of depositors towards the bank.

More and more Customers are choosing us. ≈100,000 net increment in the FY.

Deposit Composition, as on 30th June 2015

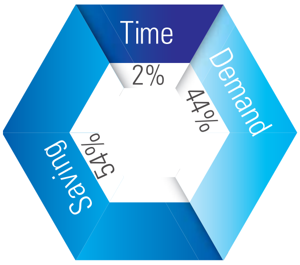
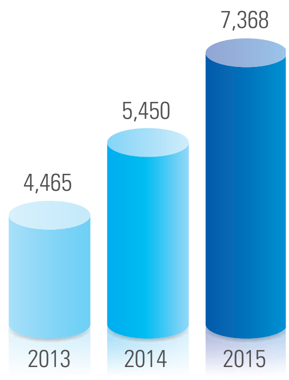


Table 2: Deposit by Type, and its Growth

Description	Balances (in Millions of ETB)		Growth	
	June 2014	June 2014	Amount (Millions of ETB)	%
Demand	3,216.30	2,528.62	687.68	27.20
Saving	3,962.08	2,765.21	1,196.87	43.28
Time	189.80	156.26	33.54	21.46
Total	**7,368.18**	**5,450.09**	**1,918.09**	**35.19**

As on 30th June 30, 2015 the bank had a total of **421,081** number of deposit accounts, registering a growth of over 31% from last year same period, or 99,992 additional number of accounts. The fact that most of the newly opened deposit accounts are saving indicates an increment of customer base and improved public confidence resulting from the strong marketing effort, external relationship and overall commitment of the bank.



Deposit Growth (2013-2015) in millions of ETB

TRADE SERVICE
(International Banking)

International banking (trade services) continued to be a key area for bank's persistent growth and profitability. During the fiscal year 2014/15, the bank's FC earning has been USD **345.44** million, and the total income earned from trade service activity sums ETB 566.12 million, seizing 46% of overall income of the bank within this FY.

The bank made 60 BK (Bank-to-Bank) arrangements with foreign banks; and in the reported budget year the bank had a business relationship with six renowned correspondent banks: Commerzbank AG Frankfurt, Bank of Africa, HSBC, Mashreq bank (Bank of Dubai, and New York), UniCredit S.T.A., & Bank of China. Number of remittance companies working with our bank has reached 14, namely: Western Union, Dahabshiil, Xpress Money, MoneyGram, Kaah, Bakaal, Amana Express, Juba Express, Taran Express, Amal Express, Ria, Irman, Transfast, and Asgori.

MARKET EXPANSION

The Bank continued to expand its distribution network, which remains an integral part of the Bank's strategy for tapping financial resources, lending to various segments, and promoting financial inclusion. During the year under review, the Bank added 35 branches, an increment of +33% from last year same period, taking the total number of branches to 141 as on 30th June 2015, of which 21 branches in outlying areas (semi-urban and rural areas) and 14 branches in the capital.

35 New Branches,
an increment of +33% from last year.

Aba Mela
Aba Nefso
Agemsa
Churchill
Bole Medhanealem
Gofa Mazoria
Tirunesh Dibaba
Ya'i Gullalle
Mesalemia
Lafto
Asco
Meskel Flower
Gotera
Frensay Legasion

Bedelle
Agaro
Chole
Harboye
Shire
Moyale
Furra
Goba
Dire Incinni
Limu Genet
Kofale
Shambu
Ya'a Bal'o
Adelle
Diksis
Sire-Arsi
Gambella
Bake
Asosa
Habe
Sagure

INFORMATION
TECHNOLOGY

We have continued to invest in technology to extend our reach, make our system efficient, and deepen existing custom-er relationships.

In an endeavor to renovate its operation and keep-up with its fast moving customers' demand, the Bank has rolled-out a core banking solution (CBS) technology at new branches and head-office organs, making a reach of 138 organs.

In addition, the Bank has been working on enhancing the stability, security, and improving the efficiency of its systems and infrastructure, including fire detection and suppression system, internet security gateway, and physical security.

Furthermore, in pursuit of convenience and modernizations, the bank has launched new technology based products/services such as SMS banking, card-banking, and has strengthened its MIS.

STRATEGIC
ACHIEVEMENTS

Our strategies for management development, build good public image, firming collaboration with key partners and stakeholders, diversifying the business mix, upgrading process capabilities have all worked well.

- The bank joined PSS (Premier Switch Solution), which grid 6-banks for ATM services.
- CBO celebrated 10th Year of its establishment this year through various mechanisms, which created an opportunity to promote the image of the bank.
- As a dynamic and customer-focused financial institution, driven by constant change, CBO announced 'Interest Free Banking' services pursuant to NBE directive Number SBB/51/2011.
- In this FY, the bank piloted Agency Banking, a platform that enables us to extend financial services to segments who were previously unreachable.
- In this fiscal year, a management team being with stakeholders from Oromia Cooperative Promotion Agency, USAID ACDI/VOCA, and NBE has made exchange visit to Cooperative Bank of Kenya, various cooperative regulatory bodies, SACCOs and other cooperatives in Kenya. The experience sharing has enabled the bank to adopt their best practices.
- The bank initiated a linkage strategies with SACCO Unions in various key aspects like governance, financial management and auditing, among others.
- CBO formed key partnerships with various financial and development partners in an effort to roll-out financial services and build capacity of cooperatives.
- The bank is constructing regional offices in order to ease rising rental cost, creat convenient working environment, and build positive public image.

CBO Building in Nekemte (Currently under Construction)

CBO Building in Kuyu

CBO Building in Bushoftu

PROFIT/LOSS
ACCOUNT

Profit before income tax was up to ETB **481** Million compared to ETB 476 million in the prior year (2013/14). On the other hand, earning per share (EPS) of the bank has reached ETB 40 for an invested ETB 100.

FINANCIAL ANALYSIS

Major Performance Indicator	*Jun-15*	*Jun-14*	*Jun-13*
1. Earning Asset			
Return on Assets (ROA)	4%	5%	10%
Return on Equit(ROE)	42%	50%	43%
Earning Per Share (EPS)	40%	61%	52%
Cost to Income (COI)	58%	46%	53%
Interest Expense to Total Deposit	2%	2%	2%
2. Capital Adequacy			
Equity/Asset	10%	12%	8%
Capital Adequacy(Equity/RWA)	14%	17%	16%
3. Liquidity			
Loan /Deposit (excluding NBE Bills)	89%	67%	43%
Loan and Deposit (including NBE Bills)	110%	82%	59%
Earning Assets (earning assests to total assests)	71%	63%	43%
Liquid Asset/Total liabilities	24%	28%	58%
Liquid Asset/Total Deposit	33%	32%	77%
4. Asset Quality			
NPLs/ Total Loan	2.90%	1.8%	2.3%
NPLs/Total Asset	1.7%	0.9%	0.7%
NPLs/Equity	16.8%	6.2%	6.7%

AUDITORS REPORT

According to International Financial Reporting Standard (IFRS)

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Fax: +251-011-466 15 36 >> 251-091-1 98 35 72
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Degefa Lemessa Authorized Auditors
Limited Partnership
Chartered Certified
Accountants
P.O.Box: 8118
E-mail: deg.lem@ethionet.et
Addis Ababa Ethiopia

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COOPERATIVE BANK OF OROMIA

We have audited the accompanying financial statements of *COOPERATIVE BANK OF OROMIA S.C* which comprise the statement of financial position as of 30 June 2015, the statement of comprehensive income, the statement of changes in shareholders equity and statement of cash flows for the period then ended and summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and in the manner required by National Bank of Ethiopia 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.

Auditors Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatements in the financial statements whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

1. Preshipment loans amounting to Birr 251,099,422.77 were outstanding at the balance sheet date of which 248,399,421.77 didn't have any security. The loans were granted free of any interest and those granted to four customers amounting to Birr 50,209,101 didn't have any loan agreement which of course have been fully provided for.

2. Outward documentyary bills purchased (ODBP) at Dire Dawa branch totalling Birr 40,183,473.92 have remained outstanding for more than a year for which no provision has been maintained in the bank's books of accounts.

3. We have not been provided with adequate information to assess the adequacy of provision maintained for loans and advances excluding overdraft, revolving facilities and merchadise loans in line with the National Bank of Ethiopia Assets Classification and Provisioning Directive.

QUALIFIED OPINION

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs 1 to 3 above, the financial statements give a true and fair view of the financial position of *COOPERATIVE BANK OF OROMIA S.C* as of 30 June 2015 and of its financial performance, changes in shareholders equity and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

We have no comment to make on the Board of Directors Report relating to financial matters and pursuant to Article 375(2) of the Commercial Code of Ethiopia 1960; we recommend the approval of these financial statements.

Dlemessa

Degefa Lemessa Authorized Auditors
Limited Partnership,
Chartered Certified Accountants

Addis Ababa
December 3, 2015

This report supersedes the report that issued on 26th Of October, 2015.

COOPERATIVE BANK OF OROMIA SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Notes			2014
		Birr	Birr	Birr
ASSETS EMPLOYED				
Cash and Bank balances	6		2,322,975,836	1,757,413,229
Loans and advances(net)	7		6,566,040,875	3,644,115,624
Fixed time deposit	8		113,962,446	90,000,000
Other assets	9		698,804,706	843,368,708
Government Saving Bond			5,000,000	-
Investment in NBE bills	10		1,505,183,292	839,903,292
Investment in shares	11		52,181,000	43,391,000
Property, plant and equipment	12		196,529,560	131,259,523
Leasehold land	13		557,725	566,140
Deferred tax asset	14		831,593	269,230
Deferred charges	15		-	85,106
TOTAL ASSETS			**11,462,067,034**	**7,350,371,854**
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits	16	7,368,004,706		5,450,097,267
Margin held on letter of credits		299,443,083		350,353,444
Other liabilities	17	2,214,612,368		327,491,199
Provision for taxation	18(a)	169,096,158		132,053,770
			10,051,156,315	6,259,995,680
SHAREHOLDERS' EQUITY				
Paid up capital	19	864,848,200		632,138,300
Donated capital	20	3,931,539		3,931,539
Share premium		8,672,001		8,655,604
Legal reserve	21	259,315,225		181,205,697
Retained earnings		274,143,754		264,445,033
			1,410,910,719	1,090,376,173
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**11,462,067,034**	**7,350,371,854**

Chairman of Board of Directors

President

COOPERATIVE BANK OF OROMIA SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Notes	Birr	Birr	2014 Birr
REVENUE				
Interest earned on loan and advanc	22		701,729,147	422,291,243
Commission income	23		388,270,731	392,222,994
Gain on exchange rate fluctuation			121,634,392	56,347,828
Other income	24		14,490,469	11,058,688
			1,226,124,738	881,920,753
EXPENSES				
General and administrative expense	25	217,502,043		149,074,239
Interest expenses	26	137,493,919		100,963,410
Salaries and benefits	27	161,614,747		119,780,132
Provision for bad debts (other assets)		124,496,287		4,132,865
Provision for bad loans and advances		103,930,000		32,018,814
Audit fee		100,000		99,367
			(745,136,995)	(406,068,827)
Net income before profit tax			480,987,744	475,851,926
Tax expense	28		(168,549,633)	(131,800,940)
			312,438,110	344,050,986
Transfer to legal reserve			(78,109,528)	(86,012,747)
			234,328,583	258,038,240
Accumulated profit brought for ward		264,445,033		146,497,043
Dividend declared and paid		(224,079,862)		(139,540,250)
Board of directors' remuneration	29	(550,000)		(550,000)
			39,815,171	6,406,793
			274,143,754	**264,445,033**
Earnings per share of Birr 100			40%	61%

Chairman of Board of Directors

President

Baankii Hojii Gamtaa Oromiyaa (W.A.)

Cooperative Bank of Oromia (S.C.)

COOPERATIVE BANK OF OROMIA SHARE COMPANY
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2015

			2014
	Birr	Birr	Birr
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before tax		480,987,744	475,851,926
Depreciation and amortization	38,156,717		29,085,890
Fixed assets adjustment	(37,404)		-
Variance between depreciation addition & expense	-		373,818
Variance between the provision addition & expense	-		48,272
Provision for other receivables	124,496,287		4,132,865
Provision for doubtful loans and advances	103,930,000		32,018,814
Dividend income	(3,022,412)		(4,050,000)
Effect of foreign exchange rate fluctuation	(121,634,392)		(56,347,828)
		141,888,796	5,261,831
		622,876,540	481,113,757
Increase/decrease in loan and advances	(3,025,855,250)		(1,596,415,393)
Increase/decrease in other assets	20,067,715		(686,888,795)
Increase/decrease in other liabilities	1,887,121,169		(496,875,708)
Increase/decrease in margin paid	(50,910,361)		(123,703,529)
Increase/decrease in customers' deposit	1,917,907,438		985,058,203
		748,330,711	(1,918,825,222)
Net cash outflow / inflow from operating activities before profit tax		1,371,207,250	(1,437,711,465)
TAXATION			
Profit tax	(132,053,770)		(77,694,860)
Withholding tax	(15,837)		-
		(132,069,607)	(77,694,860)
Net cash inflow from operating activities		1,239,137,643	(1,515,406,325)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(103,295,829)		(68,135,591)
Investment in leasehold land	-		(444,424)
Local Investment - Stock and Shares	(8,790,000)		(9,850,000)
Dividend income	3,022,412		-
Special CDT with NBE	-		121,033,000
Investment in Government Saving Bond	(5,000,000)		-
Fixed time deposit with other banks	(23,962,446)		(30,000,000)
Purchase of NBE Bills	(665,280,000)		(272,656,000)
Purchase of Treasury Bills	-		424,024,200
Net cash (outflow)/ inflow from investing activities		(803,305,863)	163,971,185

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Cash Flow from Financing Activities:			
Collections from subscribed shares net off dividend capitalized	31,356,906		69,869,471
Share premium collected	16,397		623,551
Dividends paid	(22,726,868)		(19,930,306)
Directors' profit share paid	(550,000)		(550,000)
Net cash inflow/(outflow) from financing activities		8,096,435	50,012,716
Effects of exchange rate changes		121,634,392	56,347,828
Net increase in cash for the year		565,562,607	(1,245,074,596)
Cash balance at the beginning of the year		1,757,413,229	3,002,487,825
Cash balance at the end of the year		**2,322,975,836**	**1,757,413,229**

Chairman of Board of Directors

President

Degefa Lemessa Authorized Auditors Limited Partnership
Addis Ababa Ethiopia
Chartered Certified Accountants

Baankii Hojii Gamtaa Oromiyaa (W.A)
Cooperative Bank of Oromia (S.C)
11

COOPERATIVE BANK OF OROMIA SHARE COMPANY
STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Paid up capital Birr	Share premium Birr	Donated Capital Birr	Legal reserve Birr	Retained Earnings Birr	Total Birr
BALANCE AS AT 1 JULY 2013	**442,337,900**	**8,032,053**	**3,931,539**	**95,192,951**	146,497,043	695,991,486
Dividend paid	-	-	-	-	(19,609,321)	(19,609,321)
Dividend capitalized	119,930,929	-	-	-	(119,930,929)	-
Share premium collected	-	623,551	-	-	-	623,551
Collection from subscribed shares	69,869,471	-	-	-	-	69,869,471
Net profit for the year	-	-	-	-	344,050,986	344,050,986
Directors' share on profit paid	-	-	-	-	(550,000)	(550,000)
Transfer to legal reserve	-	-	-	86,012,747	(86,012,747)	-
BALANCE AS AT 1 JULY 2014	**632,138,300**	**8,655,604**	**3,931,539**	**181,205,698**	**264,445,032**	1,090,376,173
Dividend paid in cash	-	-	-	-	(22,726,868)	(22,726,868)
Dividend capitalized	201,352,994	-	-	-	(201,352,994)	-
Share premium collected	-	16,397	-	-	-	16,397
Collection from subscribed shares.	31,356,906	-	-	-	-	31,356,906
Net profit for the year	-	-	-	-	312,438,110	312,438,110
Directors' share on profit paid	-	-	-	-	(550,000)	(550,000)
Transfer to legal reserve	-	-	-	78,109,528	(78,109,528)	-
BALANCE AS AT 1 JULY 2015	864,848,200	8,672,001	3,931,539	259,315,226	274,143,753	1,410,910,719

Degefa Lemessa Authorized Auditors Limited Partnership
Addis Ababa Ethiopia
Chartered Certified Accountants

COOPERATIVE BANK OF OROMIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. REPORTING ENTITY

Cooperative Bank Of Oromia is a privately owned commercial bank established in October 2004 in accordance with the "licensing and supervision of banking business proclamation No. 592/2008" of Ethiopia to undertake commercial banking activities. It provides corporate and retail banking services in various parts of the country. The Bank obtained its license from the National Bank of Ethiopia (NBE) and started its business activities in March 2005.

The address of its registered office is as follows is Addis Ababa Kirkos Sub city Woreda 09, House Number 056.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of Cooperative Bank of Oromia have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body were applied. There was no early adoption of any standard not yet effective. Local regulatory requirements as issued by the National Bank of Ethiopia and the commercial code of Ethiopia of 1960 have also been considered in the preparation of the Financial Statements.

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.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Ethiopian Birr (ETB), which is the Bank's functional currency. Except as indicated, financial information, presented in ETB has been rounded to the nearest digit.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgments, estimates and assumptions in the process of applying the Bank's accounting policies that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been applied consistently across the bank and to all periods presented in these financial statements. Certain comparative amounts in the statement of total comprehensive income and statement of financial position have been re-presented as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income.

a) Adoption of new standards or amendments effective for the year ended 30 June 2015

New standard or amendments	Effective for annual periods beginning on or after
Amendments to IFRS 7-Disclosures-Offsetting Financial Assets and Financial Liabilities.	1 January 2014
Amendments to IAS 36-Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1 January 2014
IFRS 10, IFRS 12, IAS 27 (amended)	1 January 2014

Addis Ababa Ethiopia

The impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2015:-

- IAS 32 (amended). In December 2011 the IASB published amendments to IAS 32 Financial Instruments: Presentation. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:
    - the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
    - that some gross settlement systems may be considered equivalent to net settlement.

The Bank adopted the amended standard as of 1 January 2014. The amended standard did not have material impact on the disclosures in the Bank's financial statements.

- IAS 36 (amended). In May 2013 the IASB published Recoverable Amount Disclosures for Non-Financial Assets, amendments to IAS 36 Impairment of Assets. The amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The Bank adopted the amended standard as of 1 January 2014. The amended standard did not have any impact on the Bank's financial statements.
- IFRIC 21 In May 2013 the IASB issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Bank adopted the

interpretation as of 1 January 2014. The interpretation did not have any impact on the Bank's financial statements as the Bank's interpretation of the standard was identical to the IFRIC applied in 2014.

- IFRS 10, IFRS 12, IAS 27 (amended). In October 2013 the IASB published "Investment Entities" (Amendments to IFRS 10, IFRS 12 and IAS 27). As the Company does not have investment entities, the amendments did not have any impact on the Bank's financial statements.

(b) **New Standards and amendments not yet effected**

New standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (2010)	1 January 2018

IFRS 9: Financial Instruments (2010): It replaces parts of IAS 39 - Financial Instruments, Recognition and Measurement that relates classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortized cost. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

The bank did not early adopt new or amended Standards in year 2014/15 and is in the process of assessing the impact.

(c) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net". Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into ETB at the mid exchange rate at that date.

The foreign currencies the Bank deals with are predominantly United States Dollars (USD) and Euro (EUR). The exchange rates used for translation at 30 June 2015 were as follows:

Currency	Buying	Selling	Mid rate
1 USD	Birr 20.5659	Birr 20.9772	Birr 20.7716
1 EUR	Birr 22.8528	Birr 23.3099	Birr 23.0814

(d) Recognition of income and expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific criteria must be met before revenue and expense are recognized:

(i) **Interest income and expense**

Interest income and expense are recognized in profit or loss using the nominal interest rate based on contractual agreement. The nominal interest rate excludes transaction costs and fees and points paid or received that are an integral part of the contractual agreement. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability and usually these costs are borne by borrowers. However, interest income on non-performing loans and advance on import bills are recognized on cash basis.

(ii) **Dividend income**

Dividend income is recognized when the bank's right to receive the payment is established.

(iii) **Fees and commission income and expense**

Fees and commission income and expense are recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognized on completion of the underlying transaction. Fees and commission 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 including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

(iv) **Rental income**

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(v) **Income tax (current and deferred)**

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Currently, the company pays 30% tax on profit it made. Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affects neither accounting nor taxable profit.

(e) Financial assets and liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances, deposits and borrowed funds on the date at which they are originated. All other financial assets and liabilities are initially recognized on the date at which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at cost.

(ii) 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 financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount reported on 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a bank of similar transactions such as in the bank's trading activity.

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Ethiopia

(iv) Amortized cost measurement

The amortized cost of a financial asset or financial 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.

(v) Identification and measurement of impairment

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. A financial asset is 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 that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data such as adverse changes in the payment status of borrowers or issuers, or economic conditions. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All individually significant loans and advances and investment securities are assessed for specific impairment. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the estimated recoverable value. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(vi) Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, cash deposited with the National Bank of Ethiopia ("NBE") and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are measured at amortized cost in the statement of financial position.

(vii) Loans and advances

Loans and advances to customers 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 their amortized cost.

(viii) Investment securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

(ix) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale. Held-to-maturity investments are carried at amortized cost. A sale or reclassification of a more than insignificant amount of Held-to-maturity investments would result in the reclassification of all Held-to-maturity investments 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. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(f) Property and Equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized within other income or other expenses in profit or loss.

(ii) **Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the bank. Recurrent repairs and maintenance are expensed as incurred.

(iii) **Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation rates, based on the estimated useful lives for the current and comparative periods are as follows:

Asset category	Rate (%)
Leasehold improvements	based on the shorter of the lease term or estimated useful lives
Buildings	5
Motor Vehicles	20
Furniture and equipment	20
Computers	25

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(g) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use. The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programs are recognized as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond their original specifications and lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method over a period of five years. There are no intangible assets with indefinite useful lives.

(h) Deposits and borrowed funds

Deposits and borrowed funds are the Bank's sources of debt funding. Deposits and borrowed funds are initially measured at cost, and subsequently measured at their amortized cost.

(i) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the directors.

(k) Employee benefits

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation and will have no legal or constructive obligation to pay further amounts. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions. There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due.

(l) Share capital and reserves

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Legal Reserve

The bank transfer not less 25% of its profit after tax as required by the National Bank of Ethiopia until such reserve equals the bank's paid up capital.

(iii) Share issue costs

Incremental costs directly attributable to the issue of equity instruments are recognized as a expense in the profit or loss when incurred.

(m) Earnings per share

Earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(n) Dividend

Dividends are recognized as a liability in the period in which they are declared.

(o) Related parties

In the normal course of business, the Bank has entered into transactions with related parties. The related party transactions are at arm's length.

4. Financial risk management

The bank's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The bank's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the its financial performance. The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board of Directors of the bank has established the Credit, Audit & Risk, which are responsible for developing and monitoring the bank risk management policies in their specified areas. The bank's risk management policies are established to identify and analyze the risks faced by the bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Risk Committee is responsible for monitoring compliance with the bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

This note, therefore, presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure. The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets and settlement balances with market counterparties and reverse repurchase loans.

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to credit committee at V/presidents level, Credit committee at president office. Larger facilities require approval by the Board of Directors;
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, and market liquidity
- Developing and maintaining the bank's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation;

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the bank in the management of credit risk; and
- Regular audits of business units and the bank's credit processes are undertaken by Internal Audit Department.

(ii) **Credit risk measurement**

The bank assesses the probability of default of customer or counterparty using NBE's guideline tailored to the various categories of counter party. The rating combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the bank are segmented into five rating classes. The bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The bank regularly validates the performance of the rating and their predictive power with regard to default events.

The NBE's guideline is as follows:

Grade 1 – pass loans

Grade 2 – special mention loans

Grade 3 - Sub-standard loans

Grade 4 - Doubtful loans

Grade 5 - Loss

(iii) **Impairment and allowance policies**

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment allowance recognized in the statement of financial position at year-end is derived from each of the five rating grades. However, the impairment allowance is composed largely of the bottom two grades. The bank's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. The other financial assets, other than loans and advances, are neither impaired nor past due.

Loans and advances graded 3, 4 and 5 in the bank's internal credit risk grading system include items that are individually impaired. These are advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Loans and advances graded 1 and 2 are not individually impaired. Allowances for impairment losses for these loans and advances are assessed collectively. The bank further complies with National Banks' prudential guidelines on general and specific provisioning. The rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The main components of this allowance are a specific loss component that relates to individually significant exposures. Loans are evaluated individually for impairment based on factors such as payment history, borrower financial condition, collateral and current economic conditions. For collateral dependent loans their value is taken into account but discounted based on date of their last received appraisal and market conditions. For calculation of the value of the collaterals, following collaterals are taken into account; cash deposits, vehicles, real estate, equipment and other movable property. From these evaluations of expected cash flows and collateral values, specific allowances are determined. The amount of the loss is measured as the difference between the asset's carrying amount and the lower of recoverable value of the loan or the estimated value of the collaterals. Recoverable value is the multiple of recovery rate of the Bank and the principal balance of the loan. Recovery rate is determined as guide line set by the National Bank of Ethiopia.

The National Bank of Ethiopia, Supervision of Banking Business SBB 43/2008 directive classifies loans and advances into the following categories:

Grade 1 **Pass Loans**

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

Grade 2 **Special Mention**

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

Grade 3 **Substandard**

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

Grade 4 **Doubtful**

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

Grade 5. **Losses**

Non-performing loans or advances past due 360 days is classified as loss. As per the Directive the provision for impairment losses are determined as follows:-

No.	Loan Category	Provision required
1	Pass loans	1% of the outstanding loan balance
2	Special mention loans	3% of the outstanding loan balance

3	Substandard loans	20% of the net loan balance
4	Doubtful loans	50% of the net loan balance
5	Loss loans	100% of the net loan balance

Note: Net loan balance is outstanding loan balance less the recovery value of the loan.

(iv) **Impaired loans and advances**

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect part or all of the principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded as Non performing Loans (NPL).

(v) **Past due but not impaired loans**

Loans and advances whereby contractual interest or principal payments are past due but the Bank management believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the bank.

(vi) **Credit related commitment risk**

The bank makes available to its customers guarantees which may require the bank to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the bank to similar risks to loans and are mitigated by the same control processes and policies.

(vii) **Collateral on loans and advances**

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered assets. 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.

(viii) **Concentration of credit risk**

The bank's financial instruments do not represent a concentration of credit risk because the bank deals with a variety of customers and its loans and advances are structured and spread among a number of customers. The bank monitors concentrations of credit risk by sector.

(ix) Fair value of collateral held

The bank holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

(b) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities. The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation. The bank's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The finance department receive information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The finance department then maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. Liquidity reports are submitted weekly to the NBE.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowed funds and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy. In order for the liquidity risk to be kept at acceptable level the bank has set internal limits on liquidity risk exposure which are regularly followed and reported. In regular course of the activities of the Bank liquidity risk is managed according to the Policy and Procedure on liquidity risk management.

As key indicators, that will be used to recognize liquidity problems, the Bank, as minimum, is defining the following:

- substantial increase in the assets financed by short term deposits;
- significant and sudden decrease in the core deposits or loss of the regular depositors of the Bank;
- considerable decrease in the assets quality, particularly the credit portfolio;
- extensive withdrawal of deposits before their maturity date;
- regulatory liquidity indicators; internal liquidity indicators;

As a part of the crisis management actions, within the Liquidity Contingency Plan, following are considered as immediate:

- borrow on inter-bank money market;
- Call back fixed time deposits
- sell short term securities (domestic and foreign);
- borrowing from the National Bank

Another key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Details of the reported bank's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

(c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Bank manages changes in interest rate risk by applying fixed term interest rates while the foreign exchange risk is managed by matching of liabilities and assets and holding of assets appreciating currencies especially the USD to which the Birr is pegged to. Assets and liabilities committee (ALCO) analyzes the Bank's market risk on a quarterly basis and reports to the Risk Committee. ALCO performs analyses and makes decisions with regard to balance sheet structure, liquidity risk, and currency risk and also is analyzing the risk of the Bank's treasury unit.

(i) **Currency risk**

The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits. Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The bank translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The bank records all gains or losses on changes in currency exchange rates in profit or loss.

(ii) **Interest rate risk**

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The bank closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee is the monitoring body for compliance with the set interest rate gaps.

(d) Capital management

The primary objective of the Bank's capital management is to ensure that the Bank complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the National bank Ethiopia. The National Bank sets and monitors capital requirements for the banking industry as a whole. In implementing current capital requirements, the National Bank requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The capital management policies of the bank remain consistent with prior year.

5. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank's 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 units. 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:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with bank's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance department. 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. Operational risk is risk of loss due to inappropriate or weak internal processes, inappropriate persons and inappropriate or weak systems in the Bank as well as external events. The Bank defined its framework for managing with the operational risk by adopting the Policy and Procedure on operational risk management. Policy and Procedure for Operational Risk Management was adopted by the Supervisory Board of the Bank. In the Policy the basic aims are defined such as operational risk management (system and processes for managing operational risk, organizational structure, reporting system, internal control and etc), as well as measuring and monitoring the operational risk. Implementation of the operational risk management framework is meant to be delivered by performing RCSA (Risk and control self-assessment) which is continuous process, and by using the operational loss event database. Within the strategy for Risk Management, the Bank has defined the acceptable level of exposure to operational risk.

6 CASH AND BANK BALANCES

		2014
	Birr	**Birr**
Cash on hand	1,291,504,016	980,095,803
Reserve accounts with NBE	350,443,489	243,443,489
Payment and settlement account with NBE	123,890,862	216,199,090
Deposits with local Banks	54,702,501	23,911,785
Deposits with Foreign Banks	502,434,968	293,763,063
	2,322,975,836	**1,757,413,229**

7 LOANS AND ADVANCES

		2014
	Birr	**Birr**
Agricultural and production term loan & overdrafts	106,748,383	47,335,795
Manufacturing production term loan	83,641,045	47,145,438
Domestic trade and service term loan	4,018,436,654	2,436,849,703
Domestic trade and service overdraft	1,148,320,093	513,363,451
Export term loan	262,529,636	98,783,581
Export overdraft	153,682,180	65,116,852
Import term loan	20,255,907	38,736,598
Advance against export bills	348,650,098	138,875,781
Advance against import bills	108,565,558	132,520,164
Building and construction loans	61,739,178	21,079,195
Merchandise loan	193,872,235	94,739,235
Project loan	33,787,191	-
Personnel loan	155,422,799	77,929,831
Co finance loan	42,679,917	-
	6,738,330,875	3,712,475,624
Less: Provision for loan loss and advances	(172,290,000)	(68,360,000)
	6,566,040,875	**3,644,115,624**

LOANS BY MATURITY PERIOD

	1-3months	3-6months	6-12months	1-3years	Over 3 years	Total
	Birr	Birr	Birr	Birr	Birr	Birr
Agricultural and production term loan & OD	6,717,092	9,822,020	37,952,092	33,757,604	18,499,576	106,748,383
Manufacturing production term loan	5,263,073	7,695,892	29,736,775	26,450,248	14,495,056	83,641,045
Domestic trade and service term loan	252,858,225	369,740,185	1,428,668,729	1,270,771,397	696,398,118	4,018,436,654
Domestic trade and service overdraft	72,257,499	105,658,026	970,404,569	-	-	1,148,320,093
Export term loan	16,519,553	24,155,602	93,336,766	128,517,715	-	262,529,636
Export overdraft	9,670,378	14,140,444	129,871,358	-	-	153,682,180
Import term loan	1,274,593	1,863,765	7,201,552	6,405,632	3,510,364	20,255,907
Advance against export bills	21,938,642	32,079,628	294,631,828	-	-	348,650,098
Advance against import bills	6,831,436	101,734,122	-	-	-	108,565,558
Building and construction loans	3,884,909	5,680,681	21,950,037	19,524,106	10,699,446	61,739,178
Merchandise loan	12,199,319	17,838,369	68,927,104	61,309,239	33,598,205	193,872,235
Project loan	2,126,043	3,108,792	12,012,309	10,684,702	5,855,346	33,787,191
Personnel loan	9,779,906	14,300,600	55,257,234	49,150,171	26,934,889	155,422,799
Co finance loan	2,685,614	3,927,020	15,173,927	13,496,895	7,396,462	42,679,917
	424,006,282	**711,745,144**	**3,165,124,279**	**1,620,067,708**	**817,387,462**	**6,738,330,875**

8 FIXED TIME DEPOSIT

		2014
	Birr	Birr
Addis International Bank S.C	32,619,823	30,000,000
Lion International Bank S.C	30,000,000	30,000,000
Enat Bank S.C	31,342,623	30,000,000
Debub Global Bank S.C	20,000,000	-
	113,962,446	**90,000,000**

9 OTHER ASSETS

		2014
a **The detail is as follows:**	**BIRR**	**BIRR**
Acquired properties	35,499,197	24,190,942
Accounts receivable	47,584,612	45,879,644
Stock of fixed assets and supplies	26,491,557	20,324,478
Prepayments	199,937,163	133,175,520
Items in the process of collection/settlement-foreign	448,753,810	172,078,823
Profit tax overpaid	-	2,029,209
Items in the process of collection/settlement-local(see below b)	80,004,897	465,468,756
	838,271,236	863,147,371
Provision for doubtful balances	(139,466,530)	(19,778,663)
	698,804,706	**843,368,708**
b) Items in the process of collection/settlement-local:		
UE-local	618,923,892	1,950,615,896
UE-foreign	-	442,542,984
Branch accounts with Head Office	(585,179,457)	(969,369,178)
Branch adjustment	23,800,028	(100,871,017)
Head office's account with branches	34,317,811	(804,960,328)
ABB	-	(684,860)
OTCP at branches ledger	(11,255,167)	-
Blocking inward	(602,210)	(51,804,741)
	80,004,897	**465,468,756**

10 INVESTMENT IN NBE BILLS

In accordance with NBE directive no. MFA/NBEBILL/001/2011 issued on date of 4 April 2011 the Bank has purchased NBE Bills to the equivalent of 27% of total loan disbursed during the year. The bills are interest bearing at 3% and with maturity period of five years. The interest earned is paid by NBE on annual basis.

11 INVESTMENTS

	Birr	2014 Birr
Elemtu Integrated Milk Industry S.C	5,000,000	3,800,000
Gutu Orormia Business S.C	3,500,000	3,500,000
Orologo Prefabricated Plc	15,000,000	15,000,000
Oromia Insurance Company S.C	11,261,000	11,261,000
Eth. Switch S.C	11,370,000	5,030,000
Premiere Switch Solution	4,800,000	4,800,000
Bomoji Meat Processing and export S.C	1,250,000	-
	52,181,000	**43,391,000**

12 PROPERTY,PLANT AND EQUIPMENT

	Balance as at 30-Jun-14 BIRR	Additions BIRR	Disposals/ Adjustments BIRR	Balance as at 30-Jun-15 BIRR
COST				
Computers & Data storage equipment	51,216,935	15,204,053	-	66,420,988
Office furniture & fittings	41,344,823	17,099,316	-	58,444,139
Office & other equipments	36,851,514	18,250,997	-	55,102,511
Motor Vehicles	52,241,043	15,102,197	-	67,343,241
Premises	19,694,373	8,118,125	(11,662,773)	16,149,725
Construction in progress	18,056,813	37,443,153	-	55,499,966
	219,405,501	**111,217,842**	**(11,662,773)**	**318,960,569**
DPRECIATION				
Computers & Data storage equipment	27,608,991	11,366,415	615,539	39,590,945
Office equipments & fittings	17,142,145	8,853,161	932,276	26,927,582
Office & other equipments	11,912,984	8,553,093	748,688	21,214,765
Motor Vehicles	23,845,150	8,326,775	1,239,557	33,411,482
Premises	4,063,242	963,754	(3,740,760)	1,286,236
Unidentified difference	3,573,465	-	(3,573,465)	-
	88,145,977	**38,063,197**	**(3,778,164)**	**122,431,009**
NET BOOK VALUE	**131,259,524**			**196,529,560**

13 LEASEHOLD LAND

The leasehold land represents lease cost of:

	BIRR
900 m2 of land located in Jima town for forty years lease period	144,110
1500 m2 of land located in Woliso town for twenty five years lease period	10,800
536 m2 of land located in Addis Ababa city on ninety nine years lease period	433,624
	588,534

The detail of the balance is as follows:

	Balance brought forward Birr	Addition Birr	Balance carried forward Birr
Cost of leasehold land	588,534	-	588,534
Less-Amortization	22,394	8,415	30,809
Book Value	**566,140**		**557,725**

14 DEFERRED TAX

	Birr	2014 Birr
Depreciation for reporting purpose (Note 11)	38,063,197	28,992,802
Depreciation for tax purpose(Note 18,b)	(36,188,656)	(28,150,033)
Temporary difference	1,874,541	842,769
Deferred tax asset @ 30%	562,362	252,831
Balance brought forward	269,231	16,400
Balance carried forward	**831,593**	**269,231**

15 DEFERRED CHARGES

	Birr	Birr	2014 Birr
Establishment cost		851,058	851,058
less: Amortization			
Balance brought forward	765,952		680,846
Current year amortization	85,106		85,106
		(851,058)	(765,952)
		-	**85,106**

Degefa Lemessa Audit and Audit Service Partnership Addis Ababa Ethiopia Chartered Certified Accountants

16 DEPOSITS

	Demand Birr	Saving Birr	Fixed time Birr	E-float Birr	Total deposits Birr
Cooperatives and Ass.	472,606,062	349,028,964	14,000,000	-	835,635,026
Domestic banks	72,230,537	-	-	-	72,230,537
Non financial institutions	46,875,154	122,721,723	144,656,546	-	314,253,423
Private sectors	2,098,863,124	2,889,218,343	31,145,887	115,470	5,019,342,825
Public enterprises	520,846,920	39,729,245	-	-	560,576,165
Non interest bearings	-	379,843,302	-	-	379,843,302
Government local	2,635,181	-	-	-	2,635,181
Special saving Deposit	-	181,360,095	-	-	181,360,095
Non resident foreign	2,128,152	-	-	-	2,128,152
	3,216,185,130	**3,961,901,673**	**189,802,433**	**115,470**	**7,368,004,706**
2014	**2,528,622,791**	**2,765,209,999**	**156,264,477**	**-**	

DEPOSITS BY MATURITY

	1-3months Birr	3-6months Birr	6-12months Birr	1-3years Birr	Total Birr
Cooperatives and Ass.	514,787,341	140,161,473	123,698,440	56,987,771	835,635,026
Domestic banks	44,497,136.65	27,733,400	-	-	72,230,537
Non financial institutions	193,593,709	52,709,881	46,518,704	21,431,129	314,253,423
Private sectors	3,092,132,410	841,896,837	743,009,638	342,303,939	5,019,342,825
Public enterprises	345,339,179	94,025,716	82,981,679	38,229,592	560,576,165
Non interest bearings	233,999,913	63,711,304	82,132,085	-	379,843,302
Government local	1,623,386	1,011,796	-	-	2,635,181
Special saving Deposit	111,725,667	69,634,427	-	-	181,360,095
Non resident foreign	1,311,034	817,118	-	-	2,128,152
	4,539,009,776	**1,291,701,952**	**1,078,340,546**	**458,952,431**	**7,368,004,706**

17 OTHER LIABILITIES

		2014
	Birr	Birr
Accrued interest on fixed deposits	5,892,838	5,141,445
Accrued leave pay	13,236,712	9,101,550
Severance pay	71,386	61,827
Dividend payable	433,083	486,043
Adjustment and refunds	60,635	69,403
Blocked amounts/ accounts	6,072,177	5,233,244
CPO and certified checks	149,328,938	118,059,317
Other banks special clearances	2,200,000	691,789
Withholding tax payables	692,875	201,084
Exchange payables to NBE	14,631,178	13,364,658
Income taxes payable	973,275	1,236,430
TT's and MT's payable local	378,476	19,462,862
TT's payable Foreign	-	14,687,306
Miscellaneous payables	27,774,864	53,976,077
IBC,TT and L/C payable to correspondent bank	1,936,217,923	-
Stamp duty charges	547,234	1,111,376
TT's Retransferred	1,062,694	1,247,002
Retention	1,213,847	2,405,076
Lease payable for lease hold land	121,565	121,565
Interest tax on deposits	1,325,128	1,336,146
Dividend tax payable	529	10
Audit fee	100,000	100,000
Pension fund payable	313,934	360,105
Money transfer agents	17,907,803	-
Ethiopian Shipping lines	-	75,489,391
TT cover received before tested message	500	-
Accrual for general assembly	1,000,000	-
Accrual for bonus payable	18,000,000	-
Over the counter Cash payable	10,470,131	-
Purchase advance to suppliers	2,967,599	3,004,459
Court case	546,034	543,035
VAT payable	10,448	-
Deposit for guarantee issued	269,993	-
Cost Sharing payable	32,375	-
ATS payable(CK clearance and settlement)	758,193	-
	2,214,612,368	**327,491,199**

18 PROVISION FOR TAXATION

a) Profit tax Computation

	Birr	Birr	2014 Birr
Profit before tax		480,987,744	475,851,926
Add: Depreciation for reporting purpose		38,063,197	28,992,802
Provision for debtors other than loans		124,496,287	4,132,865
		643,547,227	508,977,593
Less: Depreciation for tax purpose(note 18 b)	(36,188,656)		(28,150,033)
Interest on NBE bills	(34,458,055)		(20,888,964)
Interest on Treasury bills	-		(10,631,720)
Interest on fixed time deposit with NBE	-		(2,258,177)
Interest on deposit with local Bank	(9,021,928)		(8,442,069)
Interest earned on foreign bank deposits	-		(62,153)
Dividend income	(3,022,412)		(4,050,000)
		(82,691,050)	(74,483,116)
		560,856,177	434,494,478
Add: Entertainment	595,563		665,341
Donations	2,244,793		4,025,000
Penalty	10,120		422,000
		2,850,476	5,112,341
Taxable Profit		**563,706,653**	**439,606,818**
Provision for taxation(30%)		169,111,996	131,882,045
Provision for taxation(5%) on interest earned on foreign bank deposit		-	3,108
Provision for taxation(5%) on interest earned on certificate of deposit		-	168,617
		169,111,996	132,053,770
Less: Withholding tax		(15,837)	-
Profit tax payable		**169,096,158**	**132,053,770**

b) Depreciation For tax purpose

	Computers and Data storage Birr	Other business assets Birr	Buildings Birr	Total Birr
Depreciation base brought forward	24,388,490	76,181,321	19,111,234	
Additions during the year	15,204,053	50,452,510	8,118,125	
Less-Disposal cost of building	-	-	(11,662,773)	
Depreciable base	39,592,543	126,633,831	15,566,586	
Depreciation expense at 25%, 20%,5%	(9,898,136)	(25,326,766)	(963,754)	(36,188,656)
Depreciation base carried forward	**29,694,407**	**101,307,065**	**15,566,586**	

19 PAID UP CAPITAL

The authorized share capital of the Bank is Birr 3 Billion comprising 30,000,000 ordinary shares at par value of Birr 100 each. Total subscribed shares at the balance sheet date is Birr one Billion out of which Birr 864,848,200 is paid.

20 DONATED CAPITAL

Donated capital is donation received from the Regional Government of Oromia without imposed restriction on utilization.

21 LEGAL RESERVE

In accordance with the article of association of the bank and proclamation no. 592/2008 article 19 of the Licensing and Supervising of Banking, 25% of profit after tax is transferred to legal reserve until the balance reaches 100% of the paid up capital.

22 INTEREST EARNED ON

		2014
	Birr	**Birr**
Loans and advances	658,185,876	380,008,160
Deposit with local banks	9,021,928	8,442,069
NBE bills	34,458,055	20,888,964
Treasury bills	-	10,631,720
Fixed time deposit with NBE	-	2,258,177
Foreign bank deposit	-	62,153
Government Saving Bond	63,288	-
	701,729,147	**422,291,243**

23 COMMISSION INCOME

		2014
	Birr	**Birr**
Letter of credit opening	76,860,728	58,229,443
Commission on CPO issued	449,082	267,408
Commission on export LC	-	3
Import letter of credit	15,237,824	12,184,103
Service charges	266,859,690	298,678,064
Telephone, Telegram and Telex charges	4,857,654	4,542,262
I.B.C commission	571,002	762,106
Guarantees issued	12,564,412	3,836,591
Demand drafts	10,424,886	13,240,594
Un-cleared effects local	19,616	455,207
Others	425,836	25,214
	388,270,731	**392,220,994**

24 **OTHER INCOME**

		2014
	Birr	Birr
Estimation and inspection fees	936,777	404,663
Postage	289,666	337,969
Rent	752,862	459,818
Excess cash collected	293,753	234,489
Gain on disposal of acquired properties	130,523	2,280,009
Dividend income	3,022,412	4,050,000
Sundries	9,064,475	3,291,741
	14,490,469	**11,058,688**

25 **GENERAL EXPENSES**

		2014
	Birr	Birr
Depreciation	38,063,197	28,992,802
Advertisement and publicity	6,103,106	2,683,785
Check books	383,809	171,507
NBE issue account and correspondent accounts charges	4,089,063	50,600
Cleaning and supplies	236,423	188,253
Donation and contribution	2,244,793	4,025,000
Electronic data processing	1,304,219	363,637
Entertainments	595,563	665,341
Fuel and representation allowances	8,681,247	4,954,693
Repair and maintenance	6,601,347	3,862,585
Insurance	6,225,913	4,819,872
Office rent	52,583,835	34,530,829
Perdiem	5,859,409	2,098,677
Fuel and lubricants	3,783,410	3,018,550
Stationery and printing	16,329,204	10,454,145
Telephone, telegram, telex & postage	12,990,528	7,136,699
Transportation	17,736,670	9,770,824
Wage	18,727,667	12,311,492
Utilities	1,371,083	857,051
Amortization of deferred charges	85,106	85,106
Amortization of leasehold land	8,415	8,415
Others	8,942,552	3,997,331
Penalty	10,120	422,000
Provision for stamp duty assessed	-	5,514,872
Provision for annual reception	-	1,953,678
Inauguration	63,984	249,369
Legal service	218,581	69,655
Membership fee	834,020	2,501,000
Money bags	2,429	847
Circulation fee	-	167,932

License,registration and subscription fee	241,955	229,557
Revenue stamp	7,517	356
Share related expenses	250,000	720,944
Bank commission & service charge	1,534,197	1,406,480
Billing for credit information	1,382,450	779,800
Land and building tax	10,232	8,055
Loss on disposal of acquired properties	-	2,933
	217,502,043	**149,074,671**

26 **INTEREST EXPENSES**

		2014
	Birr	Birr
Interest on saving deposits	125,001,153	86,741,591
Interest on fixed time deposits	12,492,766	14,221,819
	137,493,919	**100,963,410**

27 **SALARIES AND BENEFITS**

		2014
	Birr	Birr
Salaries	114,180,404	82,467,724
Provident fund	12,280,708	8,791,949
Staff training and education	2,307,313	575,511
Staff insurance	1,259,334	973,740
Medical expenses	1,921,495	1,568,664
Uniform	1,083,809	734,841
Accrued leave pay	4,527,456	2,459,209
Housing allowance	1,324,092	1,086,511
Cash indemnity	4,474,218	2,868,703
Bonus	15,904,249	16,620,907
Other staff benefits	2,351,669	1,632,372
	161,614,747	119,780,132

28 **TAX EXPENSE**

		2014
	Birr	Birr
Current year provision(Note 18,a)	169,111,996	132,053,770
Deferred tax (Note 14)	(562,362)	(252,831)
	168,549,633	131,800,940

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29 DIRECTORS ALLOWANCE

Directors allowances is paid represent monthly transport allowance of Birr 2,000 in accordance with the NBE directive SBB 49/2011. Directors are entitled to annual remuneration of up to Birr 50,000.

30 CONTINGENT LIABILITIES AND COMMITMENTS

		2014
	Birr	Birr
Guarantees issued	146,510,142	35,719,000
Commitment on Letter of credit	215,285,000	402,289,068
Loans approved but not disbursed	46,230,000	4,790,000
Unutilized overdraft and other facilities	134,570,000	169,856,386
	542,595,142	**612,654,454**

31 COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to facilitate comparison with the current year presentations.

32 RESIDUAL CONTRACTUAL LIABILITIES OF FINANCIAL LIABILITIES

	Carrying amount Birr	Gross nominal in(out) flow Birr	1-3months Birr	3-6months Birr	6-12months Birr	1-3years Birr	Over 3 years Birr
Financial assets							
Cash and Bank balances	2,322,975,836	2,322,975,836	2,322,975,836	-	-	-	-
Loans and advances gross	6,738,330,875	6,738,330,875	440,739,233.56	736,212,786	3,389,844,657	1,620,067,708	551,466,490.52
Fixed time deposit	113,962,446	113,962,446	-	32,619,823	81,342,623	-	-
Other assets Accounts receivable	774,792,868	774,792,868	-	47,584,612		727,208,257	
Investment in shares	52,181,000	52,181,000	-	-	-	-	52,181,000
Investment in NBE bills	1,505,183,292	1,505,183,292	-	-	47,448,335	652,172,958	805,562,000
Government Saving Bond	5,000,000	5,000,000	-	-	-	-	5,000,000
	11,512,426,318	**11,512,426,318**	**2,763,715,070**	**816,417,221**	**3,518,635,615**	**2,999,448,922**	**1,414,209,491**
Liabilities							
Deposits	7,368,004,706	(7,368,004,706)	(4,539,009,776)	(1,291,701,952)	(1,078,340,546)	(458,952,431)	-
Other liabilities	2,214,612,368	(2,214,612,368)	(885,844,947.22)	(1,328,767,421)	-	-	-
Current year tax	169,096,158	(169,096,158)	-	(169,096,158)	-	-	-
Margin held on letter of credits	299,443,083	(299,443,083)	(299,443,083)		-	-	-
Commitments & contingent liabilities	396,085,000	(396,085,000)	(396,085,000)	-	-	-	-
	10,447,241,315	**(10,447,241,315)**	**(6,120,382,806)**	**(2,789,565,531)**	**(1,078,340,546)**	**(458,952,431)**	**-**
Liquidity Gap	**1,065,185,003**	**1,065,185,003**	**(3,356,667,736)**	**(1,973,148,311)**	**2,440,295,069**	**2,540,496,490**	**1,414,209,491**

Addis Ababa Ethiopia

33 RESIDUAL CONTRACTUAL LIABILITIES OF FINANCIAL LIABILITIES DINOMINATED BY HARD CURRENCIES

	Carrying amount Birr	Gross nominal in(out) flow Birr	1-3months Birr
Cash and bank balances	686,042,055	686,042,055	686,042,055
Outward documentary bills purchased	448,753,810	448,753,810	448,753,810
Total assets	**1,134,795,865**	**1,134,795,865**	**1,134,795,865**
Liabilities			
IBC, TT and L/C payables	1,936,217,923	(1,936,217,923)	(1,936,217,923)
Commitment on L/C	215,285,000	(215,285,000)	(215,285,000)
	2,151,502,923	**(2,151,502,923)**	**(2,151,502,923)**
Liquidity gap	**(1,016,707,058)**	**(1,016,707,058)**	**(1,016,707,058)**

Addis Ababa Ethiopia