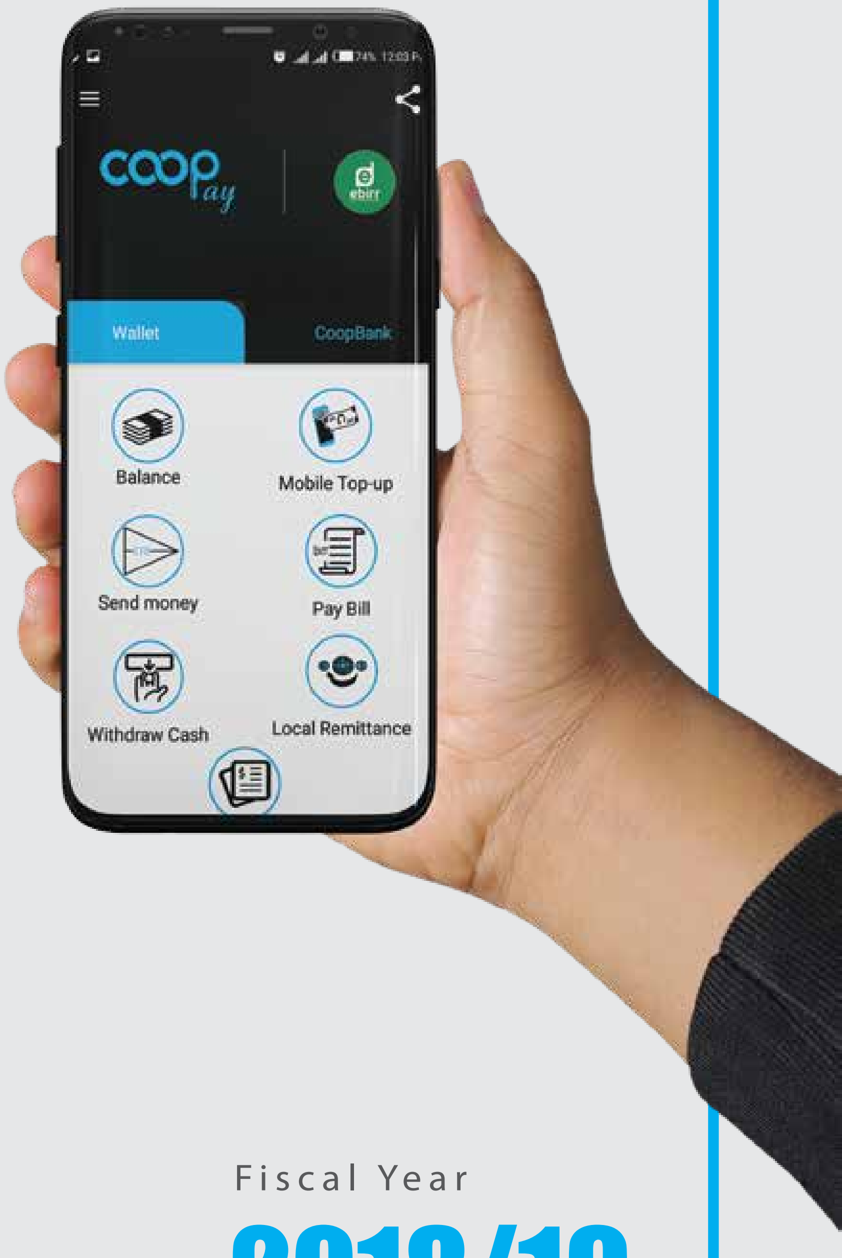
Bank of Oromia

ANNUAL
REPORT



Fiscal Year

2018/19

Who we are

A brief history of Coopbank.

The history of co-operative banks has been traced back to the financial exclusion faced by many communities in 19th century. With the industrial revolution, the emerging financial services sector was primarily focused on wealthy individuals and large enterprises in urban areas. The rural population, particularly farmers, small businesses and the communities they supported, were excluded from financial services. Thus, co-operative banks were originally set up to correct this market failure and to overcome the associated problems of asymmetric information in favor of borrowers. Beginning in Germany, the co-operative banking concept gradually spread to the rest of the continent and to the Nordic countries.

In respect of Ethiopia, the country has a very low financial service coverage as mainstream financial institutions are heavily tilted towards the urban centers with good physical infrastructure, leaving the rural areas underserved. Traditionally, 'Equbs' and 'Idirs' are informal institutions that are deeply ingrained in the life communities and have also been serving financial needs of the society. Reluctance and low capacity of the financial institutions in the country to serve rural community, a demand-supply gap prevailed in financial market especially in rural areas, coupled with farmers awareness to be organized in to cooperatives and the increasing need to finance cooperatives' called for establishment of a cooperative bank. Furthermore, finance appeared to be the critical bottleneck to sustain the cooperative institutions and ultimately the farmers. It was all these glitches that initiated the inception and establishment of Cooperative Bank of Oromia.

Obbo Haile Gebre Lube, regarded as the founding father (proponent) of Ethiopia's cooperatives, brought the idea of founding the bank for he believed that the best way to fight poverty is through cooperation. Formally establishing a project office in 2002, the bank's formation was realized with majority of shareholders being the cooperative societies. The bank then is commercially licensed in October 2004 and commenced operations in March 2005; as there is no legal provisions that allow establishment of a cooperative bank in the country, the bank was registered in accordance with article 304 of the commercial code of Ethiopia.

What we have achieved in 2018/19

Performance Dashboard

5.3 Million
Number of Deposit Account

ETB 2.95 Billion
Expenses

4,369
Number of Employees

ETB 767.01 Million
Gross Profit

389
Number of Branches

ETB 36.36
Earning Per Share

84
Number of ATMs

ETB 36.17 Billion
Deposit

ETB 41.79 Billion
Balance Sheet Size

ETB 24.36 Billion
Loans

ETB 3.71 Billion
Income

$310.40 Million
FCY Generation

Contents

BOARD CHAIRMAN'S REMARK

"The year shown a continuation of the Bank's good performance in terms of major financial and non-financial indicators."

Dear Shareholders;

On behalf of the Board of Directors, I am pleased to present the annual corporate performance report, including financial statements for the year ended June 30, 2019.
The bank once again performed well in a year that presented both positive opportunities and challenges at global, national, and also the industry level.

The global economy saw a persistence of the steady expansion, although the momentum has decelerated. According to IMF projections, the global economy recorded growth of 3.7% and 3.5% in 2018 and 2019, respectively. In line with this, the ongoing trade tensions have resulted in lessening of manufacturing and a more uncertain global trade environment weighing to a certain extent on activity momentum and likely leading to a reduced appetite for capital spending.

Growth in Sub-Saharan Africa (SSA) was also slower than expected partly due to weakness in the largest economies of the region. Yet, economies of non-resource intensive SSA countries has remained stronger supported by agricultural production and services, and household consumption and public investments.
The macroeconomic conditions, on the other hand, remained fairly stable, sustained its growth momentum, and major political and economic reforms were also seen during the year. Yet, the economy was still challenged with acute foreign exchange shortages and rising public debt.

Within these mixed global and national settings, the bank recorded a resilient performance steered by its corporate strategy, which clearly puts a roadmap for balancing the short-term goals with building a strong financial institution. Let me briefly reflect on the performance delivered by the bank in the year 2018/19, which marked the second year in our 3-year strategic period;

The year has shown a continuation of the bank's good performance in terms of major financial and non-financial indicators. Continuing substantial growth of savings resulted in the enlargement of the balance sheet in the year by ETB 11.91 billion to ETB 41.79 billion. Loans and advances have increased by 57.1% to reach ETB 24.36 billion at the end of June 2019.

The bank posted a gross profit (before tax) of ETB 767.01 million for the financial year, up by ETB 97.2 million compared with the preceding year. We are pleased with the result given a substantial investment made in expansion of our branch footprint and growth strategy pursued. During the year, the bank increased its accessibility from 298 branches to 389 branches countrywide.

Furthermore, the bank has sustained investing in its people, technology and infrastructure to lay strong foundation for future growth. Essentially, noteworthy activities were done to add digital products and services to the bank's portfolio. Construction of transitional headquarters has advanced well, and at the end of the reporting year, concrete work up to the 12th floor was completed.

Going forward, though plentiful work remains, we believe we are on the right lane and are making real headway. We are, therefore, committed to working with all our stakeholders in all efforts to maximize stakeholders' value by remaining firm in our strategic direction and sound corporate governance.

On behalf of the Board of Directors, I take this opportunity to thank our customers for having faith in our bank, and we look forward to providing you with the best possible solutions in the future. I also acknowledge the support from our shareholders, regulatory authorities, and business partners for positive input and support to the bank.

The excellent result gained during the year would not have been possible without commitment, and dedication of our employees. I highly appreciate it and would like to extend them our sincere thanks. I again would also like to express my particular gratitude and thanks to my board colleagues and management of the bank in efficiently discharging your respective responsibilities.

Thank you,
December, 2019

FIKRU DEKSISA (PhD)
Chairperson, Board of Directors

"We have continuously been transforming our internal process and operations to improve the value proposition and satisfy our stakeholders."

REFLECTIONS FROM THE PRESIDENT

I am pleased to report that in the fiscal year 2018/19, the bank, recorded yet another year of solid performance across all metrics, which was enabled through a strong commitment to our strategy and sustained delivery of value propositions to our clients.

During the year, we further reinforced our balance sheet, and the total assets of the bank rose from ETB 29.89 billion as at end of-June 2018 to ETB 41.79 billion as at end of-June 2019, increasing by ETB 11.91 billion, or a growth of 39.82%. The total loans and advances increased by ETB 8.86 billion from ETB 15.5 billion at June 30, 2018 to ETB 24.36 billion on June 30, 2019. The overall increase was primarily driven by an increase in the bank's deposit mobilization supported by a strong credit demand. Not only has the loan book of the bank considerably improved, but also with the risk parameters under control. NPL ratio was thus kept below the regulatory standards and was around 2.77%, at the end of the reporting period.

The bank also remains committed to recruiting new customers and deepening its relationship with existing clients by providing appropriate customer value propositions. Accordingly, customer deposits grew by 40.15% to ETB 36.17 billion.

The year also brought other significant achievements in our forex transactions with the total foreign currency generation of USD 310.4 million, a growth of 11.4% from the preceding year.

As regards to profitability, the bank achieved yet another record performance in 2018/19 as net profit increased 29.21% from the previous year to ETB 666.7 million. Total revenue rose 48.1% to ETB 3.71 billion from interest income and commission and fees growth, whilst operating expenses also enlarged to ETB 2.95 billion primarily due to growth of the bank and additional administrative costs and staff benefits.

Staying devoted to the three key pillars of its strategy, the bank continued to endow in sustainable business growth, improve the customer experience, and bring operational excellence through improving internal capabilities and operational efficiencies. In view of that, we have continuously been transforming our internal process and operations to improve our value proposition and satisfy our stakeholders. For instance, the bank further improved its operating model to better serve and support the institutional and diaspora customers.

Across our bank, we drove growth by deepening relationships with existing clients while also attracting new ones. Accordingly, 1.31 million new deposit accounts were opened by various segments of customers.

During the year, the bank opened 91 more branches at various areas of the country thus bringing the number of branches to 389.

In line with its strategy, the bank has given critical attention to the learning and growth aspects. For the people are our greatest assets, we continued investing in them while fostering a culture that reinforces the bank's core values. Similarly, by realizing the fact that digitization is going to radically change the entire banking landscape, we have extensively been working to introduce the best and convenient ecosystem for our customers. Moreover, we have made significant progress on strengthening our risk management by reinstituting our governance approach at district and head-office levels.

Core to our mission and values is the belief that our long-term success depends on the progress of the communities and the people we serve. Keeping this in mind, the bank has discharged various social responsibilities in support of social, environmental and humanitarian causes.

Once again, I would like to thank our board of directors, shareholders, customers, regulators, and business partners, for their continued support and dedication to the Bank. Special gratitude will go to our highly engaged and committed employees for such commendable results.

Thank you,
December, 2019

DERIBIE ASFAW
President

coop
Bank of Oromia

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Remittance

Account to Account

Pay Bill

Wallet to Bank

Mini Statement

Bank of Oromia

Board of **Directors**

Dr. Fikru Deksisa

Board Chairperson

Obbo Kebede Asefa

Deputy Chairperson

Obbo Abera Hailu

Board Director

Adde Askeberech Belayneh

Board Director

Obbo Fekadu Dugasa

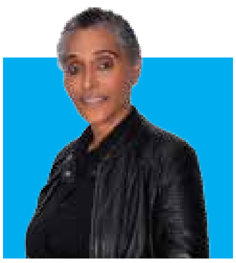
Board Director

Obbo Garomsa Bayisa

Board Director

Obbo Tefera Anbessa

Board Director



Adde Elfinesh Alemayehu

Board Director

Obbo Mulugeta Dagne

Board Director

Obbo Oumar Wabe

Board Director

Dr. Alemu Sime

Board Director

Obbo Teshome Argeta

Board Secretary

Executive **Management**

Deribie Asfaw
President

Ahmed Hassen
VP, Corporate Banking

Desalegn Tadesse
VP, Retail and SMEs Banking

Aman Semir
VP, Information System

Liko Tolesa
VP, HR and Facilities Management

Gadissa Mamo
VP, Finance

Gemeda Mi'essa
Chief Risk and Compliance Management Officer

Tafesse Fana
Chief Internal Auditor

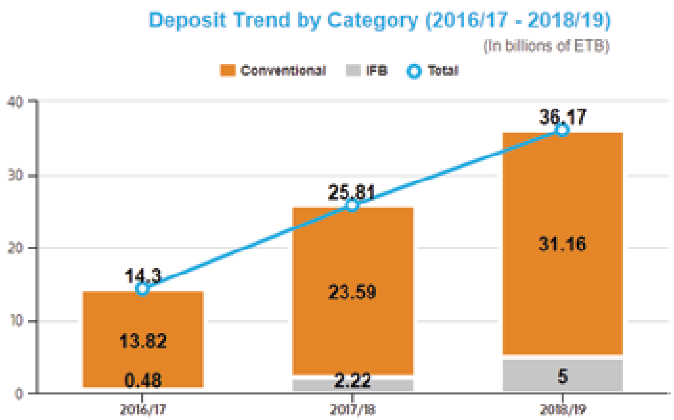
Tadele Tilahun
Director, Strategy and Change Management

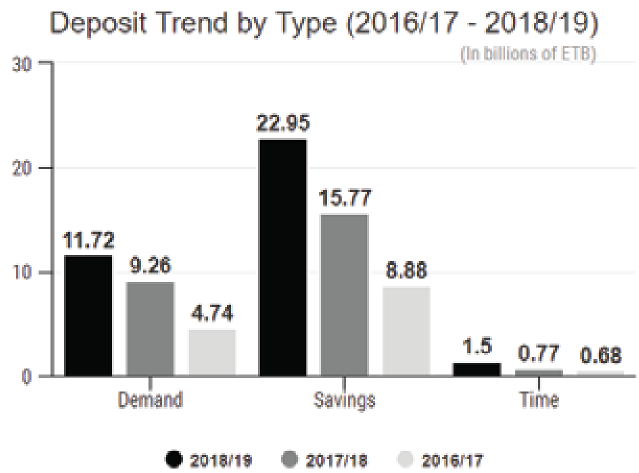
Deposits

At the end of June 2019, total deposits of the bank were up 40.15% from the previous year to reach ETB 36.17 billion. The increase was due primarily to an increase in deposits from retail and interest-free banking segments, and various strategic initiatives employed during the year. The bank maintained a strong and diversified deposit base from various target customers. As regards to deposits performance by type, Savings deposits reported a growth of 45.5% to ETB 22.95 billion, while Current Account deposits reported an increase of 26.45% to ETB 11.72 billion.

As the bank continued to maintain its focus on sustainable deposit sources, the majority of the deposit position is held by savings deposit with 63.5%. Demand deposits constituted 32.4% of total deposits, and fixed deposits were only 4.1% of the bank's deposits.

For the upcoming year, by strengthening our customer relationship led approach, by utterly improving our digital banking experience, and offering the best business propositions, we will maintain a steady growth of deposits.





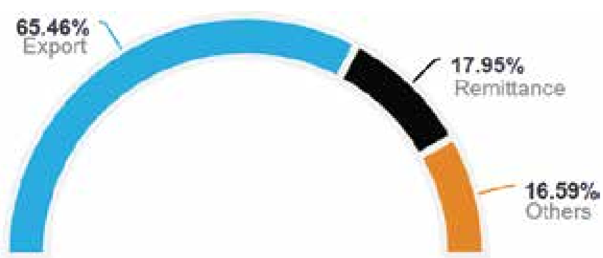
International Trade

The international trade shown a moderate progress reinforced by export and foreign remittances. During the financial year 2018/19, the bank's foreign currency generation stood at 310.4 million USD, up 11.4% from the last year. The bank managed to enhance its forex generation from foreign remittances and SWIFT; whilst export earnings have weakened due to a decline in global market prices. In the year, the reward initiative for remittance beneficiaries and forex exchange lottery was also continued to promote forex services of the bank.

Foreign Currency Inflow by Source
In millions of USD

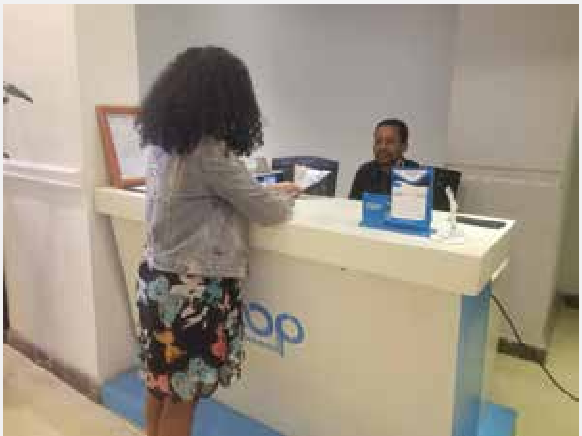
Category	2018/19	2017/18	2016/17
Export	203.18	223.14	134.49
Remittance	55.75	46.10	47.63
Others	51.47	10.03	7.30
TOTAL	310.40	279.26	189.42

Revenue generated from the forex has reached ETB 578.76 million, which is an enhancement of ETB 136 million from the last year.



As regards to payments of foreign currency, a significant part of it was delivered for Import LC payments with 62.7% share followed by CAD in 23%, and the remaining (14.3%) goes to outgoing TT and others.

Remittance Agents



Forex Bureau at Elilly Int. Hotel

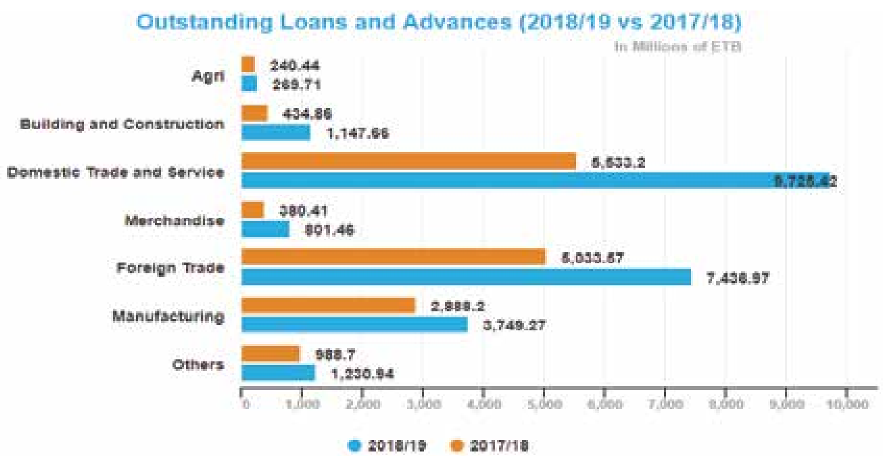
3rd round remittance and forex lotto 1st prize winner

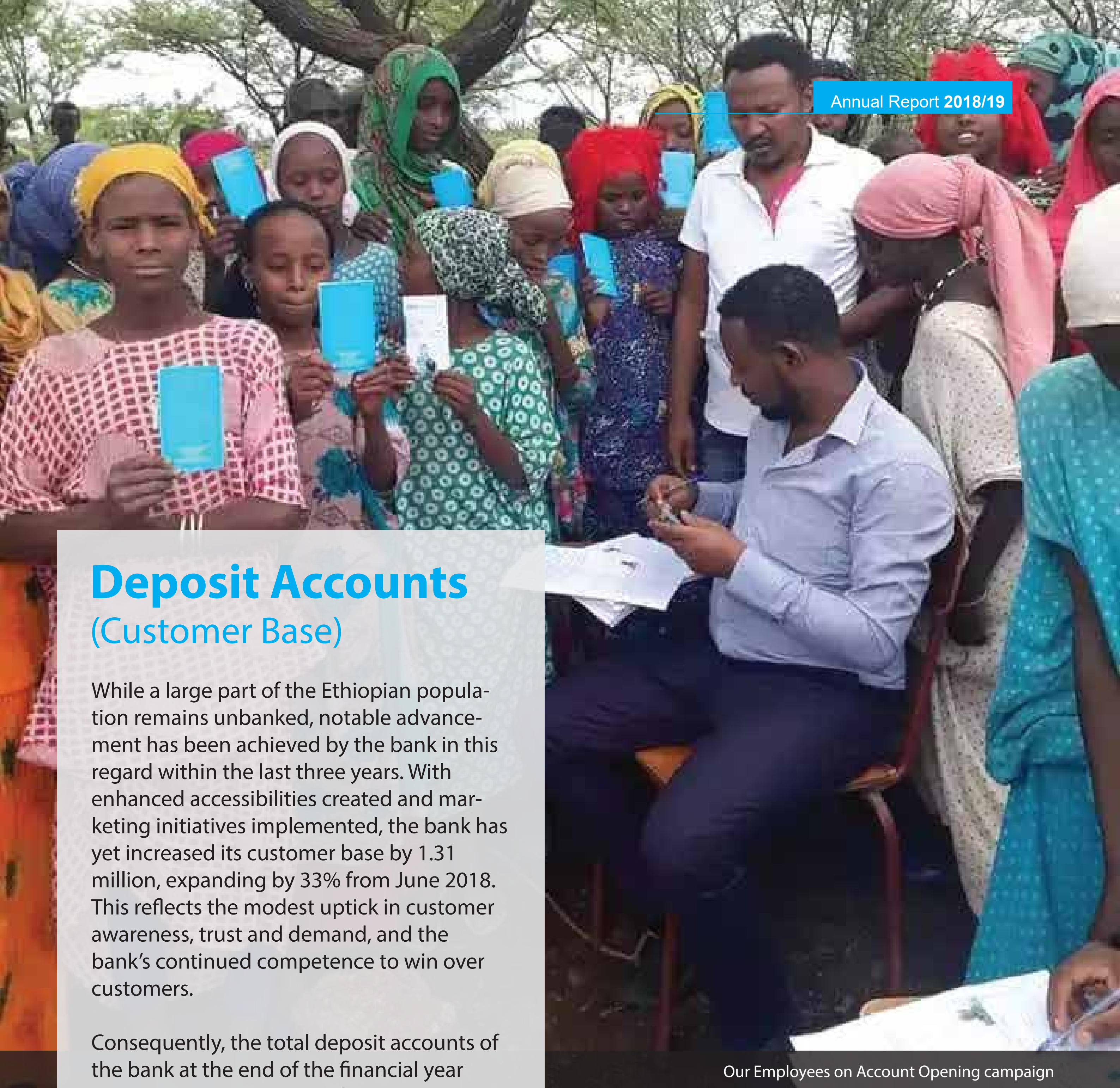
Credit Management

Our loan book continued to grow strongly with significant diversification in the portfolio mix. During the year, the bank had disbursed about ETB 14.86 billion to various sectors of the economy, and the total outstanding loans and advances improved considerably to reach ETB 24.36 billion, up by 57.1% from June 2018.

The loan portfolio of the bank was dominated by domestic trade and services, representing 39.9% of total loans and advances. Foreign trade seizes 30.5% of the loan-book, and manufacturing production held 15.4%.

The NPL ratio was also maintained within an acceptable range set by the regulatory body, and slowed down marginally to 2.77% in the year from 2.92% in 2017/18.





Our Employees on Account Opening campaign

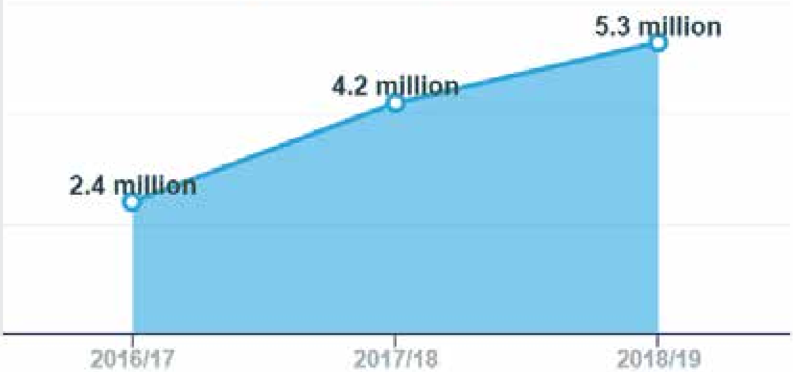
Deposit Accounts
(Customer Base)

While a large part of the Ethiopian population remains unbanked, notable advancement has been achieved by the bank in this regard within the last three years. With enhanced accessibilities created and marketing initiatives implemented, the bank has yet increased its customer base by 1.31 million, expanding by 33% from June 2018. This reflects the modest uptick in customer awareness, trust and demand, and the bank's continued competence to win over customers.

Consequently, the total deposit accounts of the bank at the end of the financial year reached 5.3 million, 79% of which are conventional deposit accounts. At the same time, consistent increase in customer base has conveyed strong growth in transaction volumes and brought considerable financial resources.

In the years ahead, the bank will continue broadening its customer base and, in parallel, aspires to create great customer experience by leveraging the full-scale digital opportunities.

Trend of Deposit Accounts (2016/17 to 2018/19)



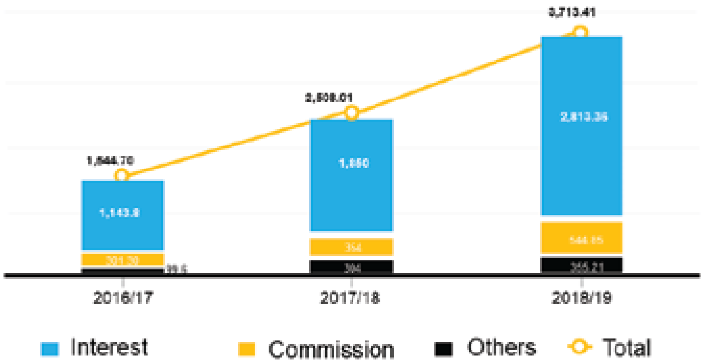
Profit

The Bank's operating profit for the fiscal year 2018/19 came to ETB 767.01 million, a rise of 14.51% year on year. Earnings per share (EPS) of the bank was thus ETB 36.36 for an invested ETB 100.

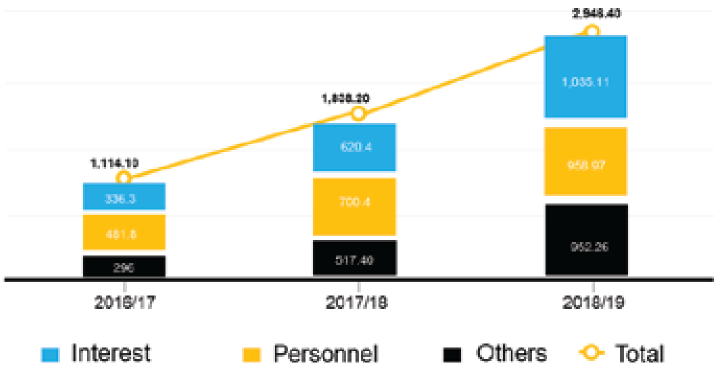
Revenue of the bank went up by ETB 1,205.4 billion to reach 3,713.41 million mainly, attributable to the expansion of the bank's loans and advances. Total interest income, including interest revenues from loans and advances, achieved ETB 2,813.36 million in the year as compared to ETB 1,850 million in 2017/18, increasing by ETB 963.36 million or a growth of 52.1%. Consolidated non-interest income increased from ETB 658 million in 2018 to ETB 900 million in 2019. This expansion by ETB 242 million is mainly attributed to increased income of commission and service charge from forex activities.

Total operating expenses increased by 60.3%, closing the year at ETB 2,946.4 million compared to 1,838.2 million in 2017/18 as the bank sustained to invest in accessibility, infrastructure, technology, and human capital to support its business growth. Interest expense alone surged by ETB 414.75 million due to substantial growth in deposit mobilization. Personnel and the other expenses have also shown a growth of 56.9%, basically attributed to expansion in business volume of the bank.

Trend of Revenue (2016/17 to 2018/19)
(In millions of ETB)



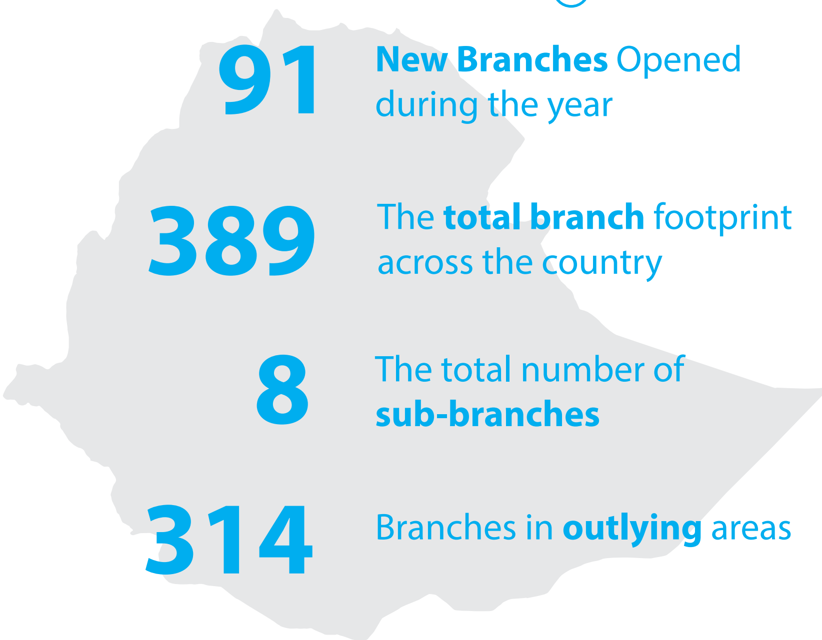
Trend of Operating Expenses (2016/17 to 2018/19)
(In millions of ETB)



Branch Expansion

During the period under review, the focus on the expansion of the bank's branch footprint was sustained, with 69 new branches being opened, and 22 sub-branches upgraded to full scale branches. Total branch network of the bank has thus increased to 389 branches, at the end of June 2019. In particular, with a total 314 branches in outlying areas (around 81% of bank's branches), the bank has the largest rural branch network amongst the private banks in the country. The bank has therefore been playing a meaningful role in promoting financial inclusion, particularly by giving remarkable attention to the rural areas where there is limited financial access.

Branches, once more, continue not only to be core initiatives for the marketing of bank's products and services, but also play an integral role in resources mobilization. The new branches opened in the year have demonstrated a 15.3% contribution to the incremental deposits mobilized by the bank.



Technology

Technology has continued to be a critical focus area for supporting business of the bank. The bank has thus persisted leveraging technology to simplify its internal business processes and has registered a notable milestone in laying the groundwork for implementing a new digital banking ecosystem.

Likewise, various initiatives have been undertaken by the bank to increase its accessibility via alternate channels. Accordingly, the bank deployed an additional 46 new ATM machines, which increased the total ATMs of the bank to 84 as of June 30, 2019.

84 ATMs

Our **People**

As we strongly believe that people are our competitive advantage, we devoted a substantial amount of attention to talent management strategies, including attracting, retaining, rewarding, and developing our human capital.

The bank's staff strength has grown by 25% from last year and stood at 4,369 as on 30th June, 2019. On the other hand, the number of outsourced staff of the bank was 3,638 at the end of the reporting period.

The bank continued investing in its people so as to build skills that are required to meet the ever changing needs of our customers. The learning interventions made were aligned with the bank's strategic objectives and to bring the required capabilities in their respective areas of operation. Over the last year, the bank delivered various developmental activities, including training, inductions, workshop, and related initiatives for 9,480 employees, putting training coverage ratio of the bank at 217%. Workshops were organized on the new operating model of the bank, customer relationship management principles and cooperative linkage strategy, among others.

Moreover, to foster an organizational culture where people embrace their accountability toward one another and improve engagement of the bank's workforce, various assessments and surveys were done, and points of improvement were laid down.

Induction Session

Workshop on Operating model

BoD and EM training on Governance Risk, and Compliance Mgt

Our **Brand**

We believe that strong brand is one of the most important intangible resources and business assets. The bank thus continued to strategically invest in branding activities throughout the year, with initiatives that cut across sponsorships, events, and marketing. We also continued to discharge our corporate social responsibilities by taking part in health, environmental, cultural, and other humanitarian endeavors.

Another strategic move that was planned to be duly conducted in the reporting period was creating a better engagement with the bank's stakeholders via employing BTL (below-the-line) marketing initiatives. Accordingly, various face-to-face discussions were held with customers and stakeholders of the bank in various areas of the country and abroad. This engagement has offered a chance to better identify and understand the journey of our stakeholders, especially customers, which is a key factor in creating a successful customer experience.

Moreover, the bank has organized a reward and recognition program for exporters and money transfer agencies. During the year, our employees have participated in voluntary blood donation initiatives and participated in various environmental issues. In addition, the bank has made various sponsorships to promote culture, as witnessed in financial support made for new movies, music awards, and various cultural festivities. Such activities are intended to contribute for the sustainable creation of value for citizens, and the communities in which the bank does business.

Supporting Art and Culture

Exporters Day

Blood Donation at Naqamte City

Other **Strategic** Achievements

In the last year, the bank had revised its business model and redesigned execution-focused strategy (operating model) to deliver fitting values for the identified business segments. By considering business dynamism and changes in operating environment, further modifications were also made on the bank's new operating model so that the bank could better entertain needs of its target market and customers.

The period also saw further remodeling of our operating model to properly deliver value propositions for institutional and diaspora banking targets. Likewise, consumer, business working capital, mortgage and investment loan products were introduced for these targets, during the year.

Construction of the bank's transitional headquarters, a 16-storey building, which was started in the last fiscal year, is advancing as planned and at the end of June 2019 concrete work till 12th floor was completed. By giving due emphasis to this strategic theme, various construction works were done at other towns so as to increase investment and fixed assets of the bank. Accordingly, construction of multi-purpose building project at Waliso town was kicked off in the year under consideration, and the design work and preliminary architectural works were done for the construction project at Jimma town. In the near future, the bank will continue constructing own buildings in various parts of the country.

3D Design of Coopbank's building in Waliso Town

3D Design of Coopbank's Building in Jimma Town

Progress of transitional Headquarters Construction project.

Shaikh Salih Nur Ahmed
SAC Chairperson

Ustaz Kamil Shemsu Siraj
SAC Deputy Chairperson

Shaikh Aman Hussen Kabeto
SAC Member

Shaikh Alfadil Ali Mustefa
SAC Member

SAC Members Comment on IFB Annual Performance

We, the sharia Advisory Committee (SAC) members of the Coopbank have been overseeing different operational and procedural activities in respect to Shari'ah compliance as presented by IFB Financing and Investment sub-process on sample based as stated duties and responsibilities vested therein, during the Fiscal year 2018/2019.

Specifically, we have gone through assessment of the existing IFB window model, recommending to open some IFB dedicated branches and to separately and independently establish IFB Subsidiary model branches after marketing study is made by the management, and giving Shari'ah advice on Shari'ah related issues.

In addition, we have visited IFB windows to check the operational correctness (segregation), overseeing the IFB window banking technologies usage, modules, and Halal ATM cards as presented by IFB Customers' Accounts and operations sub-process, and have been advising on marketing activities including publications and advertisement as presented by IFB marketing sub-process.

We have also witnessed that IFB is achieving its target persistently despite the environmental difficulties. Yet, we still believe that there is a lot to do as compared to the IFB potential within the prevailing and upcoming competition.
We have regularly overseen and reviewed the Shari'ah compliance of the IFB window service transactions and we have also issued Shari'ah advice on different Shari'ah related issues as presented by the process.

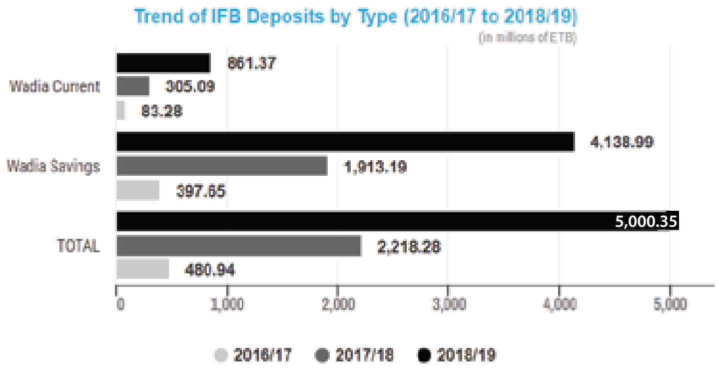
The SAC members are thankful to the Board of Directors of the bank, the president of the bank, executive management, and staffs of interest free Banking process for their continuous support.

Looking forward, It is very promising future and potential despite new entrants to the market. The Cooperative Bank of Oromia-Interest Free Banking can capitalize on its leading position in the market by upgrading its technical capability and automation of services, and increasing its customer base to meet the bank's strategic goal. Finally, we believe that the Interest Free Banking window services of the bank were Shari'ah compliant during fiscal year ending June 30, 2019.

IFB **Deposits**

During the reporting period, the bank continued to make superb progress in IFB business and delivery of efficient and reliable sharia-compliant transaction processing services. Consequently, additional deposits mobilized from the window grew by 125.23% to ETB 5.00 billion from ETB 2.22 billion in the last year. Particularly, wadia savings maintained a steady growth of 116.4% to ETB 4.14 billion in 2019 from ETB 1.91 billion in 2018.

Composition wise, Wadia Savings takes the lion's share of 82.8% followed by Wadia current with 17.2%.



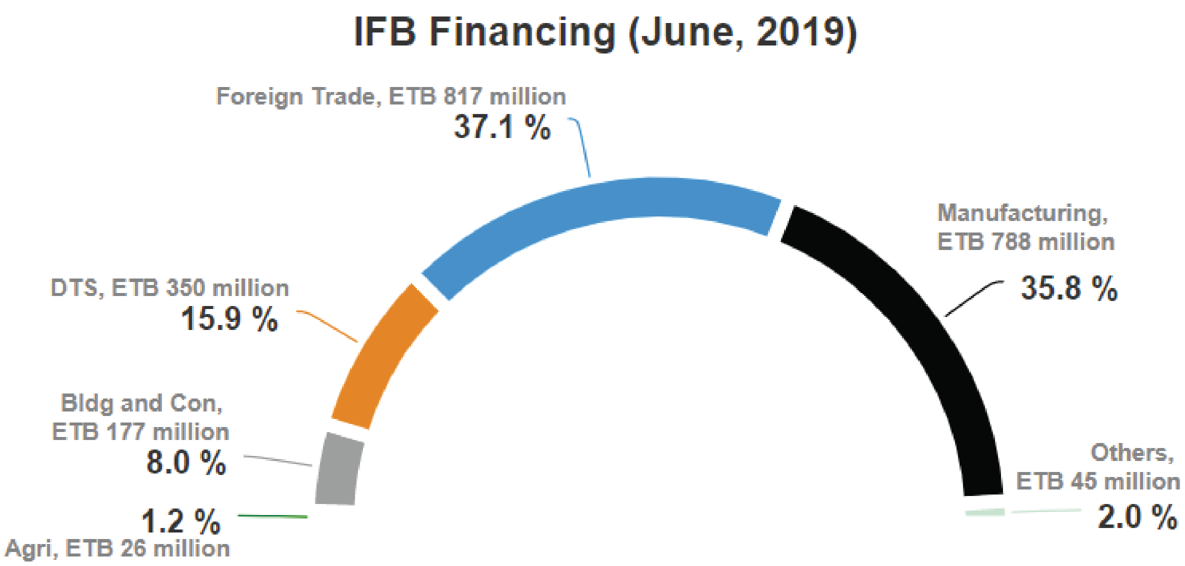
Profit from IFB Window

In the last three years, the Bank has taken significant steps to promote the sharia-compliant banking products and services to its target market. Accordingly, the priority was given to enhance capabilities, executing a sharia governance framework, and marketing the product, among others. On the other hand, during the year under review, the bank managed to increase an income from IFB window by 281% to ETB 77.58 million. Subsequently, the gross profit from the segment was ETB 65.79 million.

Halal Card

IFB Financing

The bank has made an additional injection/financings of ETB 2,126.3 million for shariah-compliant projects and businesses. The bank currently delivers murabah and qard financings, as well as letter of guarantee and kafala. The total outstanding IFB financings of the bank at the end of June 2019 was about ETB 2.2 billion the breakdown of which is demonstrated as follows.

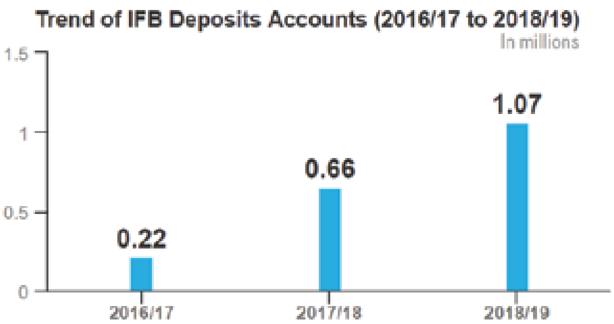


Furthermore, the segment was able to generate $10.76 million foreign currencies from export financings.

IFB Customer Base

During the year, robust growth in bank's customer base was also seen in this segment. A total IFB customer base (accountholders) of the bank surpassed 1 million customers at the end of 2018/19 fiscal year, representing 82.64% growth year-on-year.

Wadia Savings Passbook



IFB window

Other IFB Activities

In order to build up its financial offerings for the segment, exposure visits were made to Malaysia, one of the leading countries in the global Islamic finance industry. Accordingly, wide-ranging lessons were taken on how a diverse set of industry players, including regulatory body, banks, equity market (Bursa Suq Al-Sila'), and knowledge institutions, were operating and contributing to creating the vibrant Islamic financial model. Moreover, for creating awareness on the product and form better connections with a target market, various forums and discussions were conducted within the country and abroad in UAE and Saudi Arabia.

Ramadan Iftar Program for the displaced people

Visiting team at INCEIF, the global university of islamic finance, Malaysia.

Discussion with Diaspora Community on IFB Products, Saudi Arabia

Audit

Report

Cooperative Bank of Oromia S.C
Annual Report
For the year ended 30 June 2019

Contents

Cooperative Bank of Oromia S.C

Annual Report

For the year ended 30 June 2019

Directors, professional advisers and registered office

Company registration number

LBB/008/2004

Directors

Dr Fikru Deksisa	Chairman	11-Mar-2019
Obbo Kebede Asefa	Deputy chairperson	11-Mar-2019
Addee Askeberech Belayneh	Director	11-Mar-2019
Adde Elfinesh Alemayehu	Director	11-Mar-2019
Obbo Tefera Anbessa	Director	11-Mar-2019
Obbo Oumar Wabe	Director	11-Mar-2019
Obbo Garomsa Bayisa	Director	11-Mar-2019
Obbo Abera Hailu	Director	11-Mar-2019
Obbo Fekadu Dugasa	Director	11-Mar-2019
Obbo Mulugeta Dagne	Director	11-Mar-2019
Dr Alemu Sime	Director	11-Mar-2019
Obbo Teshome Argeta	Board secretary	27-May-2016

Executive management

Obbo Deribie Asfaw	President	14-Dec-2015
Obbo Ahmed Hassen	V/P Corporate Banking Process	1-May-2016
Obbo Aman Semir	V/P Information System	1-May-2016
Obbo Gadissa Mamo	V/P Finance	17-Sep-2018
Obbo Liko Tolesa	V/P HR & Facility Management	13-Apr-2018
Obbo Desalegn Tadesse	V/P Retail and SME's Banking	10-Oct-2017
Obbo Tafesse Fana	Chief Internal Auditor	27-May-2016
Obbo Gemmeda Miessa	Chief Risk and Compliance Management	27-May-2016
Obbo Tadele Tilahun	Director, Strategy and Change Mgt	13-Apr-2018

Independent auditor

Kokeb and Melkamu Audit partnership
Chartered Certified Accountants /UK/
P.O Box 33645
Fax:0115522688
Email:kokmelk@ethionet.et
Addis Ababa
Ethiopia

Corporate office

Cooperative Bank of Oromia
Africa Avenue
Flamingo get house building
P.O Box16936
E-Mail: coopbank@ethionet.et
Website: www.coopbankoromia.com.et
Addis Ababa, Ethiopia

Company secretary
Obbo Teshome Argeta

Principal bankers
National Bank of Ethipia

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

The directors submit their report together with the financial statements for the period ended 30 June 2019 to the share holders of cooperative Bank of Oromia share company ("CBO or the Bank"). This report discloses the financial performance of the Bank.

Incorporation and address
Cooperative Bank of Oromia was established in Ethiopia in 2004 in accordance with the Commercial code of Ethiopia 1960 and licensed by the National Bank of Ethiopia with the objective to engage in banking services in accordance with the Banking proclamation number 84/1994. The Bank commenced operations in 2005 and is domiciled in Ethiopia.

Principal activities
The mission of the Bank is to provide Banking solution that create greater customer experience with emphasis to cooperatives and agro-Based businesses through proper use of human resource and up-to-date technologies to maximize stakeholders value.

Results and dividends
The Bank's results for the year ended 30 June 2019 are set out on page 8. The profit for the year has been transferred to retained earnings and Risk Reserve. The summarised results are presented below.

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Revenue (Interest Income, Commission and operating income)	3,649,428	2,445,901	1,522,907
Profit before tax	767,013	669,817	430,711
Tax (charge) / credit	(109,252)	(146,400)	(92,525)
Profit / (loss) for the year	657,762	523,416	338,186
Other comprehensive income / (loss) net of taxes	8,941	(7,416)	(380)
Total comprehensive income / (loss) for the year	**666,703**	**516,000**	**337,806**

Directors
The directors who held office during the year and to the date of this report are set out on page 3.

Obbo Teshome Argeta
Company Secretary
Addis Ababa, Ethiopia

Kokeb & Melkamu Audit Partnership
Chartered Certified Accountants (UK)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COOPERATIVE BANK OF OROMIA(S.C.)

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Cooperative Bank of Oromia (S.C.)** as at June 30, 2019, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Company, which comprise the Statement of Financial Position as at June 30, 2019, and statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company within the meaning of Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC) and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the Bank's Management but are not intended to represent all matters that were discussed with them. In addition to the matter described in the Basis for Opinion section of our report, we have determined the matters described below to be the key audit matters.

The Bank adopted IFRS 9 "Financial Instruments" with effect from July 1, 2018 and this new standard supersedes the requirements of IAS 39 "Financial Instruments - Recognition and Measurement". IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. Management has determined that the most significant Impact of the new standard on the Banks financial statements relates to the calculation of the allowance for the impairment of loans and advances to customers.

In connection, with this the Bank employed the service of independent consultant-KPMG- to develop the expected credit loss (ECL) model, compute based on forward looking macro-economic assumptions and judgments to determine expected credit loss.

Kokeb & Melkamu Audit Partnership
Chartered Certified Accountants (UK)

Responsibilities of and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards and the Banking Business Proclamation No. 592/2008 and directives and circulars issued by the National Bank of Ethiopia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible of assessing the Company's ability to continue as a going concern, disclosing as applicable matters related going concern and using the going concern basis of accounting.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, whether the financial statements are properly prepared in accordance with IFRS, the relevant provisions of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008, and to issue and auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, and not a guarantee that and audit conducted in accordance with ISA(s) will always detect a material statement when it exits. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on other Legal and Regulatory Requirement

We have no comment to make on the report of your Board of Directors so far as it relates to the financial statements and pursuant to Article 375(2) of the Commercial Code of Ethiopia 1960, and recommend approval of the financial statements.

Kokeb & Melkamu

Kokeb & Melkamu Audit Partnership
Chartered Certified Accountants (UK)
Authorized Auditors in Ethiopia

Addis Ababa
November 21, 2019

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

The Bank's Management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), The Commercial Code of Ethiopia 1960 the directives issued by the National Bank of Ethiopia and Internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
The Bank is required keep such records as are necessary to:

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

b) explain its transactions and financial position; and

c) enable the Accounting and Audit Board of Ethiopia to determine whether the Bank had complied with the provisions of the Financial Reporting Proclamation and directives issued for the implementation of the aforementioned Proclamation.

The Bank's directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards.

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

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

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

Signed on behalf of the Directors by:

Dr Fikru Deksisa
Chairman of the Board of Directors
November 21, 2019

Baankii Hojii Gamtaa Oromiyaa
Cooperative Bank of Oromia

Chartered Certified Accountants (UK)
Kokeb & Melkamu Audit Work Partnership

Cooperative Bank of Oromia S.C

Annual Report
For the year ended 30 June 2019
Statement of profit or loss and other comprehensive income

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Interest income	5	2,749,372	1,787,913	1,121,998
Suspended Interest Income	5	63,987	62,112	21,819
Interest expense	6	(1,035,111)	(620,365)	(336,245)
Net interest income		1,778,248	1,229,659	807,572
commission income	7	544,845	354,076	301,309
commission expense		-	-	-
Net fees and commission income		544,845	354,076	301,309
Other operating income	8	355,210	303,912	99,600
Total operating income		2,678,303	1,887,648	1,208,481
Loan impairment reversal	9	(35,485)	66,077	156,752
Impairment losses on other assets		-	(2,337)	(93,657)
Impairment Loss on repossessed collateral	9	(2,368)	(1,414)	-
Reversal of Impairment loss on Investment	9	13,151	(13,151)	-
Impairment losses on PPE	9	(4,243)	(7,073)	-
Net operating income		2,649,359	1,929,750	1,271,576
Personnel expenses	10	(959,024)	(700,430)	(481,800)
Amortisation of intangible assets	19	(6,359)	(1,817)	(1,813)
Depreciation of property, plant and equipment	20	(74,719)	(58,960)	(43,312)
Other operating expenses	11	(842,243)	(498,726)	(313,940)
Total Other Operating Income		**(1,882,345)**	**(1,259,934)**	**(840,865)**
Profit before tax		**767,013**	**669,817**	**430,711**
Taxation	12	(109,252)	(146,400)	(92,525)
Profit after tax		**657,762**	**523,416**	**338,186**
Other comprehensive income (OCI) net on income tax				
Items that will not be subsequently reclassified into profit or loss:				
Remeasurement gain/(loss) on retirement benefits obligations	25b	(11,573)	(7,416)	(380)
Revaluation Gain-Equity Investment	16	20,514	-	
		8,941	(7,416)	(380)
Total comprehensive income for the period		**666,703**	**516,000**	**337,806**
Basic Earnings per share (Birr)	27	36	42	36

The notes on pages [6] to [79] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C

Annual Report
For the year ended 30 June 2019
Statement of financial position

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
ASSETS				
Cash and balances with banks	13	7,169,649	7,676,779	3,537,671
Loans and advances to customers	14	21,404,500	14,711,523	9,503,388
Interest free Financing	15	2,202,251	433,404	22,590
Investment securities:				
- Equity Investment	16	74,566	40,269	53,420
- Amortized cost	16	8,285,861	5,430,184	3,348,596
Other assets	18	1,736,322	913,932	806,284
Intangible assets	19	34,765	39,902	6,556
Property, plant and equipment	20	756,717	557,704	487,798
Non-Current Asset Held For Sale	20a	126,173	84,336	-
Total assets		**41,790,805**	**29,888,033**	**17,766,303**
LIABILITIES				
Deposits from customers	21	35,845,307	25,392,151	14,057,645
Due to other banks	22	322,984	415,439	238,275
Borrowing From NBE	23	-	-	499,017
Current tax liabilities	12	105,366	202,436	97,432
Other liabilities	24	2,153,314	1,452,481	1,404,109
Retirement benefit obligation	25	47,630	26,513	13,707
Deferred tax liability	12	26,642	23,312	9,346
Total liabilities		**38,501,243**	**27,512,332**	**16,319,531**
EQUITY				
Share capital	26	2,048,699	1,597,005	1,000,000
Share premium	26	8,672	8,672	8,672
Retained earnings	28	334,524	203,292	56,918
Legal reserve	29	616,350	451,904	321,050
Risk reserve	30	277,384	110,896	56,200
Capital reserves	31	3,932	3,932	3,932
Total equity		3,289,561	2,375,700	1,446,772
Total equity and liabilities		**41,790,804**	**29,888,032**	**17,766,303**

The notes on pages [6] to [79] are an integral part of these financial statements.

The financial statements on pages [6] to [11] were approved and authorized for issue by the board of directors on November 21, 2019 and were signed on its behalf by:

Dr Fikru Deksisa
Chairman of the Board of Director

Deribe Asfaw
President

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

	Note	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Legal reserve Birr'000	Capital contribution Birr'000	Risk Reserve Birr'000	Total Birr'000
As at 1 July 2018		**1,597,005**	**8,672**	**203,292**	**451,904**	**3,932**	**110,896**	**2,375,700**
Profit for the period	28			657,782				657,782
Suspended Interest Income	5			(63,987)	-	-	63,987	-
Fair value gain-Equity investment							20,514	20,514
Other comprehensive income:								
Re-measurement gains on defined benefit plans (net of tax)	-						(11,573)	(11,573)
Total comprehensive income for the period		**1,597,005**	**8,672**	**797,087**	**451,904**	**3,932**	**183,823**	**3,042,424**
Transactions with owners in their capacity as owners								
Issue of shares	0	451,694	-	-	-	-	-	451,694
Tax Paid		-	-	-				-
Dividend Paid	0	-		(203,292)	-	-	-	(203,292)
Director's share of profit		-	-	(1,265)	-	-	-	(1,265)
Transfer to Risk Reserve				(93,561)			93,561	-
Transfer to legal reserve		-	-	(164,446)	164,446	-	-	-
		451,694	-	(462,564)	164,446	-	93,561	247,137
As at 30 June 2019		**2,048,699**	**8,672**	**334,524**	**616,350**	**3,932**	**277,384**	**3,289,561**

The notes on pages [6] to [79] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C

Annual Report
For the year ended 30 June 2019
Statement of cash flows

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Cash flows from operating activities				
Cash generated from operations	32	1,784,560	5,821,673	2,158,386
Dividend Paid		(203,292)	(183,078)	-
Directors allowance	24	(1,265)	(998)	(986)
Profit Tax Paid		(202,437)	(27,422)	-
Withholding tax paid		(556)	(7)	(104)
Net cash (outflow)/inflow from operating activities		**1,377,010**	**5,610,168**	**2,157,296**
Cash flows from investing activities				
Purchase of NBE bills and bonds	16	(2,855,678)	(2,081,587)	1,542,354
Purchase of equity investments	16	(632)	13,151	(1,239)
Purchase of property, plant and equipment	20	(263,956)	(135,946)	(211,995)
Non-Current Asset Held For Sale		(41,837)	(84,336)	-
Purchase of Intangible Asset		(1,223)	(35,162.00)	-
Net cash outflow from investing activities		(3,163,326)	(2,323,880)	(1,755,588)
Cash flows from financing activities				
Settlement from borrowings	23	-	(499,017)	499,017
Proceeds from issues of shares	26	451,694	597,005	89,268
Net cash inflow from financing activities		451,694	97,988	588,285
Net increase/(decrease) in cash and cash equivalents		**(1,334,622)**	**3,384,276**	**989,993**
Cash and cash equivalents at the beginning of the year	13	6,396,778	2,807,671	1,754,860
Effects of exchange rate movement on cash and cash equivalents		242,484	204,831	75,256
Cash and cash equivalents at the end of the year	13	**5,304,640**	**6,396,778**	**2,820,109**

The notes on pages [6] to [79] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C
Annual Report
For the year ended 30 June 2019
Notes to the financial statements

1 General information

Cooperative Bank of Oromia SC ("CBO or the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established in 24 October 2004 in accordance with the provisions of the Commercial code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 592/2008. The Bank registered office is at:

Africa avenue
Flamingo get house building

Addis Abba, Ethiopia

The Bank is principally engaged in providing Banking solution that create greater customer exprience with emphasis to cooperatives and agro-Based businesses through proper use of human resource and up-to-date technologies to maximize stakeholders value.

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

The financial statements for the year ended 30 June, 2019 (the Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of comprehensive income , the statement of financial position, the statement of changes in equity, the statement of cash flows and the accompanying notes.
The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Included in cash and cash equivalents are highly liquid investments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Director to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Director believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial
The financial statements have been prepared in accordance with the going concern principle under the historical cost concept, except for the following;

I. Fair value through other comprehensive income and fair value through profit and loss, financial assets and financial liabilities (including derivative instruments) and investment properties measured at fair value

II. Assets held for sale - measured at fair value less cost of disposal; and

III. The liability for defined benefit obligations recognised at the present value of the defined benefit obligation less the fair value of the plan assets and plan assets measured at fair value.

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

2.2.1 Going concern

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

2.3 New and amended standards adopted by the Bank

In the current year, the Bank has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January, 2018.

I. **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments (IFRS 9) that replaces IAS 39. Financial Instruments: Recognition and Measurement (IAS 39) and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 was effective for annual periods beginning on or after 1 January, 2018, with early application permitted.
The bank has adopted IFRS 9 as of 1 July, 2018 which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The bank did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings. The Bank does not currently apply hedge accounting and as such the adoption of IFRS 9 does not have any impact. The only significant impact on the Bank's balance sheet or equity is as a result of the effect of applying the impairment requirements of IFRS 9. Overall,the Bank has recorded a higher impairment allowance of Birr 330 million resulting in a negative impact on equity due to the impact of IFRS 9 adoption.
Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

Classification and measurement

IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through other comprehensive income ('FVTOCI') and fair value through profit or loss ('FVTPL'). It includes the guidance on accounting for and presentation of financial liabilities and derecognition of financial instruments which was previously in IAS 39. Furthermore for non-derivative financial liabilities designated at fair value through profit or loss, it requires that the credit risk component of fair value gains and losses be separated and included in OCI rather than in the income statement. The Bank does not currently have such instruments.

Cooperative Bank of Oromia S.C
Annual Report
For the year ended 30 June 2019
Notes to the financial statements

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses ('ECL') on loans, debt securities and loan commitments not held at FVTPL based on unbiased forward-looking information. The measurement of expected loss involves increased complexity and judgment including estimation of lifetime probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk. This change has led to an increased impairment charge of Birr 330 million compared to that recognised under IAS 39 as at 30 June, 2019.
The increase in impairment charge is driven by:

The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets carry a 12-month expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between three to twelve months;

The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement under IAS 39;

The inclusion of forecasted macroeconomic scenarios e.g. growth rates, unemployment in the determination of the ECL in components such as Probability of Default (PD); and

The inclusion of expected credit losses on items that would not have been impaired under IAS 39, such as loan commitments and financial guarantees.

II. IFRS 15 Revenue from Contracts with Customer

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ('IFRS 15'), effective for periods beginning on 1 January, 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16, leases).
Revenue under IFRS 15 needs to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and the corresponding cash flows with customers. Adoption of the IFRS 15 did not have any significant impact on the Bank. The Bank has elected to adopt IFRS 15 using the cumulative effect method, under which the comparative information has not been restated.

2.4 Changes in accounting policies and disclosures

New Standards, amendments, interpretations issued but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 16 - Leases

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

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

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

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

Financial Guarantee

Cooperative Bank of Oromia S.C letter of guarantee facility is a written promise/irrevocable obligations by the Bank to compensate (pay a sum of money) to the beneficiary (local or foreign) in the event that the obligor fails to honor his/her/its obligations in accordance with the terms and conditions of the guarantee/agreement/contract.

Chartered Certified Accountants (UK)
Kokeb & Melkamu Audit Work Partnership

Baankii Hojii Gamtaa Oromiyaa
Cooperative Bank of Oromia

Cooperative Bank of Oromia S.C
Annual Report
For the year ended 30 June 2019
Notes to the financial statements

Types of Letter of Guarantees Issued by the bank:-
- Bid bond
- Suppliers' Credit Guarantee
- Advance Payment Guarantee
- Performance Bond
- Retention Guarantee
- Customs Duty Guarantee

Recognition of Financial Guarantee Criteria

Financial guarantee contracts are initially recognized at fair value. For those financial guarantee contracts issued in stand-alone arm's-length transactions to unrelated parties, fair value at inception will be equal to the consideration received, unless there is evidence to the contrary.

In subsequent periods, the guarantee is to be reported at the higher of:

(1) The amount determined in accordance with IAS 37, or

(2) The amount initially recognized less, if appropriate, the cumulative amortization (to income) that was recognized in accordance with IAS 18).

2.5 Foreign currency translation

a) *Functional and presentation currency*

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

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank's functional currency are recognised in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

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

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

2.6 Recognition of income and expenses

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

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

2.6.1 Interest and similar income and expense

The Bank adopted IFRS 15 from 1 July, 2018. Adoption of the standard has had no effect on financial information reported in the current or comparative periods. The Bank applies IFRS 15 to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.
The Bank recognises revenues to depict the transfer of promised service to customers in an amount that reflects the consideration the Bank expects to be entitled in exchange for the service. Fees and commissions are generally recognised on an accrual basis when the service has been provided and considering the stage of completion. Fees charged for servicing a loan are recognised in revenue as the service is provided, which in most instances occurs monthly when the fees are levied. Loan syndication fees are recognised as part of fees and commissions income when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time- apportionment basis. This is especially so as is the case in most instances for the Bank where the nature of the service provided is such that the client benefits as the services are provided. Where this is not the case and where the nature of the service provided is such that the customer only benefits on completion such fees are recognised at a point in time and usually when control transfers. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan under interest income.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities.

2.6.2 Fees and commission

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

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

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

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2.6.3 Dividend income

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

2.6.4 Foreign exchange revaluation gains or losses

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

The monetary assets and liabilities include financial assets within Cash and cash equivalent, foreign currency deposits.

2.7 Financial instruments - initial recognition and subsequent measurement

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.
As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in the notes to the financial statements.
Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.
The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below. The full impact of adopting the standard is set out in Note 7.

Transition from IAS 39 to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except comparative periods which have generally not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 July 2018.
Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.
The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Bank changed the description of the line item from 'interest income' reported in 2018 to 'interest income calculated using the effective interest method'.The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application;
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of investments in equity instruments not held for trading is at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

2.7.1 Financial assets

Initial recognition and measurement

On initial recognition, a financial asset shall be classified either as measured at either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).
The Bank shall measure a financial asset at amortised cost if it meets both of the following conditions and is not designated at FVTPL:
The asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). `
A debt instrument shall be measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:
The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.
On initial recognition, an equity investment that is held for trading shall be classified at FVTPL. However, for equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.
All other financial assets that do not meet the classification criteria at amortised cost or FVOCI, above, shall be classified as measured at FVTPL.
In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise

Business model assessment

The Bank shall make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
How the performance of the portfolio is evaluated and reported to the Bank's management;
The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.
Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis shall be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.
Financial assets shall not be reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

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Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' shall be defined as the fair value of the financial asset on initial recognition. 'Interest' shall be defined as the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.
In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

Derecognition of financial assets

The Bank shall derecognise a financial asset when:
The contractual right to the cash flows from the financial asset expires , or
It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI shall be recognised in profit or loss.
Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI shall not be recognised in profit or loss on derecognition of such securities.
Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank shall be recognised as a separate asset or liability

Impairment of financial assets

At each reporting date, the Bank shall assess whether there is objective evidence that financial assets (except equity investments), other than those carried at FVTPL, are impaired.
The Bank shall recognize loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
— financial assets that are debt instruments;
— lease receivables;
— financial guarantee contracts issued; and
— loan commitments issued.
No impairment loss shall be recognized on equity investments.
The Bank shall measure loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:
Debt investment securities that are determined to have low credit risk at the reporting date; and
Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.
Loss allowances for lease receivables shall always be measured at an amount equal to lifetime ECL.
12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments.
Life-time ECL is the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments.

(i) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It shall be measured as follows:
For financial assets that are not credit-impaired at the reporting date (stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
For financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
For undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
For financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(ii) Restructured financial assets

Where the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the Bank shall assess whether the financial asset should be derecognized and ECL are measured as follows:
If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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(iii) Credit-impaired financial assets

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

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

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

— significant financial difficulty of the borrower or issuer;

— a breach of contract such as a default or past due event;

— the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

— the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition shall be considered to be credit-impair unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more shall be considered credit-impaired even when the regulatory definition of default is different.

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

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

For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

For loan commitments and financial guarantee contracts: generally, as a provision;

Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

For debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognized in the fair value reserve.

(V) Write-off

Loans and debt securities shall be written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment shall be carried out at the individual asset level.

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

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

(vi) Non-integral financial guarantee contracts

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

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

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

Collateral valuation

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

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models.

Collateral repossessed

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

2.7.2 Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Bank's financial liabilities include customer's deposit, margin held on letters of credit and other liabilities. Interest expenditure is recognised in interest and similar expense.

Subsequent measurement

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

Financial liabilities at amortised cost

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss but are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Derecognition of financial liabilities

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

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2.7.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where The Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Bank has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as Bankruptcy or the termination of a contract.

2.7.4 Policy applicable before July 1, 2018

a. Recognition

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

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

b. Classification

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

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

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

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

i) Loans and receivables

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

ii) Held to maturity

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

iii) Available-for-sale

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

a. ***Identification and measurement of impairment of financial assets***

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

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.
Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Bank.

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

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

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

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

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b. *De-recognition*

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

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

c. *Offsetting of financial assets and financial liabilities*

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

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

d. *Fair value of financial assets and financial liabilities*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

e. *Amortized cost measurement*

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

2.8 *Interest free Financing and investment products*

Cooperative Bank of Oromia was begin interest free banking services in February, 2015, focusing on deposits, financing, as well as investment. Services include Wadiya accounts for cash, Wadiya current accounts for cheques, Muharaba investment savings account and Haji Umra account to save for the pilgrimage to Mecca, Saudi Arabia.

Among its financing services are Muharaba financing, where the bank delivers any good after receiving the full money and specification of the good from its customer; Ejira financing, in which the customer renders payment gradually after the bank delivers the good; Estisna financing for construction, as well as Selam financing, where the bank gives agricultural inputs to take the equivalent amount after harvest.

The other area of interest free banking is investment and includes Musharaka investment, which is a joint venture between the bank and the customer.

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Cooperative Bank of Oromia

Definition of key Terms

1. Wadiah Saving Account

Wadiah is amanah (safe custody based on trusts) where IFBW shall be fully responsible for the deposited amount to be available on demand.

Wadia (safe keeping) account is an account at which a customer deposits its fund and IFBW guarantees refund of the entire amount of deposit, or any part of the outstanding amount, without the obligation to pay any additional return on it, when the account holder demands it;

2. Wadia Demand Deposit Account

Wadia demand deposit account Is the type of deposit that do not give any returns to the depositor and can be withdrawn by the depositor up on demand. For this deposits the relationship between the IFBW and the depositor is that of debtor and creditor.

3. Hadji-Umraha Saving Account

Hadji-Umraha Saving account is safe custody based on trusts of the customer to be deposited regularly for the purpose of travelling to Meca Medina, where IFBW shall be fully responsible for the deposited amount to be available on demand.

Haji-Umura Savings Account is an account which is used to make deposit by customer for the purpose of Haji-Umura travelling.

4. Unrestricted Investment Accounts

It is a type of deposits where full discretion is given to the IFBW to utilize the fund to finance and /or invest in income generating assets;

5. Restricted Investment Accounts

It is a type of deposits where investment account holder provide specific investment mandate to the IFBW to utilize the fund to finance and/or invest in specific income generating assets;

6. Ijarah

It is a contract between IFBW and customer in which IFBW transfers the usufruct of an asset (right to use and drive profit from a property belonging to another, provided that the property remain uninjured and undiminished) but not its ownership to customer for an agreed period at an agreed rental/lease payment;

7. Istisna'a

It is a sale contract between the ultimate purchaser and seller whereby the seller, based on an order from the purchaser, undertakes to have manufactured/build the subject matter of the contract according to specification and sell it to the purchase for an agreed upon price and method of settlement whether that at time of contracting, by installments or deferred to a specific future time.

7.1 Parallel Istisna'a

It is a parallel sale contract concluded by the seller with a builder to fulfill his/her contractual obligations in the first Istisna'a contract;

8. Murabaha (Cost Plus)

It isa sale of goods with an agreed upon profit mark up on the cost between customer and IFBW whereby IFBW purchases the goods ordered by a customer from a third party and then sells these goods to the same customer;

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9. Mudarabah

It is a partnership between investment account holders as providers of funds and entrepreneur as Mudarib whereby both parties agreed to share profit as per their agreement and the losses being born by the provider of fund provided that the loss is not occurred due to negligence and mismanagement on the part of entrepreneur (Mudarib);

10. Musharaka (joint venture)

It is a partnership between IFBW and its customer whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in existing one, on the basis of constant or diminishing ownership, with objective of sharing profit as per their agreement and loss in accordance with their capital contributions;

11. Salam

It is a purchase of a commodity for future delivery in exchange for immediate payment according to specified conditions or sale of a commodity for future delivery in exchange for immediate payment;

11.1 Parallel Salam

It is a Salam contract whereby the seller depends, for executing his /her obligation, on receiving what is due to him/her-in his/her capacity as purchaser-from a sale in a previous Salam contract, without making the execution of the second Salam contract dependent on the execution of the first Salam contract;

2.9 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with Banks and other short-term highly liquid investments with original maturities of three months or less.

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2.10. Property, plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is
Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset class	Depreciation rate (years)
Buildings	50
Motor vehicles	10
Furniture & fittings	5-10
Computer equipment	7

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

Capital work-in-progress is not depreciated as these assets are not yet available for use.

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.11 Intangible assets

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate item in the income statement.

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

- Computer software – 6 years
- Core application software – 6 years

2.12 Non-current assets (or disposal Banks) held for sale

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

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

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

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

2.13 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

2.14 Other assets

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

(a) Prepayment

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

(b) Other receivables

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received.

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

2.15 Fair value measurement

Fair value under IFRS 13, Fair Value Measurement ('IFRS 13') is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on exchanges (for example, NSE, BVRM, GSE) and quotes from approved bond market makers.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer or broker, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met,
the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the consolidated statement of financial position.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

2.16 Employee benefits

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

(a) Defined contribution plan

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;
ii) provident fund contribution, funding under this scheme is 8% and 12% by employees and the Bank respectively;
based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

(b) Termination benefits

Termination benefits are payable to executive directors when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Profit-sharing and bonus plans

The Banks recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Provisions

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

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

2.18 Share capital

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

2.19 Earnings per share

The Bank presents basic earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period.

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2.20 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Bank as a lessor

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

2.21 Income taxation

(a) Current income tax

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

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

(b) Deferred tax

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are only offset when they arise in the same tax reporting Bank and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.
The preparation of the Bank's financial statements requires Director to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Bank's exposure to risks and uncertainties includes:
- Capital Director Note 4.6
- Financial risk Director and policies Note 4.1
- Sensitivity analyses disclosures Note 4.5.2

3.1 Judgements

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

3.2 Estimates and assumptions

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

(i) *Impairment losses on loans and receivables (applicable from 1 July, 2018)*

The Bank reviews its loan portfolios to assess impairment at least monthly. Where impairment has been identified, an allowance for impairment is recorded. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case loss allowance is measured at an amount equal to lifetime ECL.
If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.
The Bank generally considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. Loss allowances on such low credit risk instrument are recognised at the equivalent of 12-month ECL.
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as the expected life of the instrument, determination of significant increase in credit risk, selection of appropriate macro-economic variables and other forward- looking information etc.

Determining criteria for significant increase in credit risk and choosing appropriate models and assumptions for the measurement of ECL

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. In assessing SICR, the Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has been applied in this process.

The use of historical loss experience is supplemented with significant Director judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the Financial risk Director section.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. This is note 3.2 for more information.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.7.2 for further disclosures.

Depreciation and carrying value of property, plant and equipment

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test .

The Bank determines the business model at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and, if it is not appropriate, whether there has been a change in business model and so a prospective change to the classification of those assets.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant Director judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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4 Financial risk management

4.1 Introduction

This note explains the Bank's exposure to financial risks and how these risks could affect the Bank's future financial performance.
The Bank has documented financial risk management policies. These policies set out the Bank's overall business strategies and its risk management philosophy. The Bank's overall financial risk management programme seeks to minimise potential adverse effects of financial performance of the Bank. The Board of Directors provides written principles for overall financial risk management and written policies covering specific areas, such as credit risk, market risk (including foreign exchange risk, interest rate risk and equity price risk) and liquidity risk . Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Bank's policy guidelines are complied with. Risk management is carried out by the Bank Risk team under the policies approved by the Board of Directors.

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

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

4.1.1 Risk management structure

The Board of Directors have the ultimate responsibility for establishing and ensuring the effective functioning of the Risk and Compliance Management activities of the Bank.

The board risk and compliance management sub-committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and risk apetitte. It is also responsible for performing compliance monitoring and testing, preparing periodic risk and compliance exposire reports to executive management and the board of directors.

The Executive Management is responsible for translating and implementing the Bank's risk management strategy, priorities and policies as approved by the Board of Directors

The Bank's policy is that risk management processes throughout the Bank are assessed periodically by the management. This will help to adequately capture risk exposure, aggregate exposure of risk types and incorporate short run as well as long run impact on the Bank.

4.1.2 Risk measurement and reporting systems

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

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

4.1.3 Risk mitigation

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

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

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4.2 Classification of financial assets and financial liabilities

Birr'000 Financial assets	Original classification under IAS 39	New classification under IFRS 9	30-Jun-18 Original carrying amount under IAS 39	Re-classification	Re-measurement	01-Jul-18 New carrying amount under IFRS
Cash and balances with banks	Loans and receivables	Amortised cost	7,676,779	-	(226)	7,676,553
Loans and advances to customers	Loans and receivables	Amortised cost	14,827,154	-	(160,399)	14,666,755
Investment securities: Available for sale	Available for sale	FVOCI	40,269	-	3,441	43,711
Investment securities: Loans and receivables	Loans and receivables/Held to maturity	Amortised cost	5,430,184	-	(271)	5,429,913
Other financial assets at amortised cost	Loans and receivables	Amortised cost	284,480	-	384,739	669,219
Total financial assets			**28,258,866**	**-**	**227,284**	**28,486,150**
Financial liabilities						
Due to other banks	Amortised cost	Amortised cost	415,439	-	-	415,439
Deposits from customers	Amortised cost	Amortised cost	25,392,151	-	-	25,392,151
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	Amortised cost	1,213,342	-	53,657	1,266,999
Total financial liabilities			**27,020,932**	**-**	**53,657**	**27,074,589**

The application of these policies resulted in the reclassifications set out in the table above and explained below.
- On the adoption of IFRS 9, certain financial assets such as cash and cash equivalents, loans and advances to customers – both interest bearing and interest free and treasury bills and bonds (NBE bills and government bonds) were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.
- Further equity investment securities were reclassified out available-for-sale categories to FVOCI at their then fair values. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.
- On the adoption of IFRS 9, other financial assets such accounts receivables, uncleared effects – both local and foreign and guarantee for overseas employment agencies were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

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

In Birr'000	**Impact of**
Fair value reserve	
Closing balance under IAS 39 (30 June 2018)	-
Reclassification of investment securities (equity) measured at cost from available-for- sale to FVOCI	3,441
Related tax	(1,032)
Adjusted opening balance under IFRS 9 (1 July 2018)	**2,409**
Regulatory risk reserve (difference between IFRS and NBE provisions)	
Closing balance under IAS 39 (30 June 2018)	47,123
Transfer of balance from risk reserve to retained earnings for purposes of IFRS 9 Day 1 adjustment	(47,123)
Adjusted opening balance under IFRS 9 (1 July 2018)	**-**
Retained earnings	
Closing balance under IAS 39 (30 June 2018)	203,292
Transfer of balance from risk reserve to retained earnings for purposes of IFRS 9 Day 1 adjustment	47,123
Recognition of expected credit losses under IFRS 9 on loans and advances to customers (on balance	(160,399)
Recognition of expected credit losses under IFRS 9 on loan commitments and financial guarantee contracts (off balance sheet)	(53,657)
Recognition of expected credit losses under IFRS 9 on other financial assets such as bank balances, receivables and investment securities	384,242
Adjusted opening balance under IFRS 9 (1 July 2018)	**420,601**

4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and other financial assets.
Exposure to credit risk is managed through periodic analysis of the ability of borrowers and potential borrowers to determine their capacity to meet principal and interest thereon, and restructuring such limits as appropriate. Exposure to credit risk is also mitigated, in part, by obtaining collateral, commercial and personal guarantees.
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to term of the financial instrument and economic sectors.
The National Bank of Ethiopia (NBE) sets credit risk limit for a single borrower, one related party and all related parties to not exceed 25% of Bank's total capital amount as of the reporting quarterly period respectively.
Credit management is conducted as per the risk management policy and guideline approved by the board of directors and the Risk Management Committees. Such policies are reviewed and modified periodically based on changes and expectations of the markets where the Bank operates, regulations, and other factors.

4.3.1 Management of credit risk

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

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

(a) Probability of Default

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

(b) Loss Given Default

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

(c) Exposure at Default

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

4.3.2 Expected credit loss measurement

The loss allowance recognised in the period is impacted by a variety of factors, as described below:
- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or
  becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for
  financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of
  inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the
  period.

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(a) *Inputs, assumptions and techniques used for estimating impairment*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

I. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.

II. If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

III.If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

IV.Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result
from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit
losses on a lifetime basis.

V. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

VI.POCI financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime
basis (Stage 3).

(b) *Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met.

The quantitative criteria is based on either absolute or relative changes in credit quality. In both cases, the bank is expected to specify the percentage change, for either 12-month or lifetime PDs in comparison to the corresponding 12-month or lifetime PDs as calculated at origination, respectively, that would indicate a significant increase in credit risk since origination.

(i) *Forward transitions: Days past due*

Transition from Stage 1 to Stage 2 is based on the 30 days past due presumption.

Stage	Days Past Due
1.	0 to 29
2.	30 to 89
3.	90+

(ii) *Forward transitions: Watchlist & Restructure*

The bank classifies accounts that are included on their Watchlist or have been restructured as Stage 2 if the significant driver for the account being watchlisted or restructured is due to a significant increase in credit risk.

(iii) Forward transitions: Classification

In addition to the days past due, the bank classifies accounts as either 'Performing', 'Substandard', 'Doubtful' or 'Loss'.
This classification is considered together with days past due in determining the Stage classification. The table below summarises the account classification and days past due.

Classification	Days Past Due
Performing (Current + Watchlist)	0 to 89
Substandard	90 to 179
Doubtful	180 to 364
Loss	365+

The internal rating systems described above focus more on credit-quality mapping from the inception of the lending.
"Current": relates to assets classified as "Investment Grade" (no evident weakness).
"Watchlist": relates to items for which there is evidence of a weakness in the financial or operating condition of the obligor which requires management's close attention.
"Substandard": there is a well-defined weakness in the financial or operating condition of the obligor which jeopardizes the timely repayment of its obligations.
"Doubtful": there are all of the weakness that are normally seen in a substandard credit with the additional characteristic that these weaknesses make full repayment unlikely.
"Loss": These assets are considered uncollectible and of such little value that they should be fully written-off.
A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(c) Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.
Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data;

i). Term loan exposures

Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance
Data from credit reference agencies, press articles, changes in external credit ratings
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
Internally collected data on customer behaviour
Affordability metrics

ii). Overdraft exposures

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

(d) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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(e) *Determining whether credit risk has increased significantly*

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.
The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.
As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.
If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.
The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

(f) *Definition of default*

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

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

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

(g) *Incorporation of forward-looking information*

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

For each segment, the Bank formulates three economic scenarios: a base case, which is the median scenario, and two less likely scenarios, one upside and one downside. For each sector, the base case is aligned with the macroeconomic model's information value output, a measure of the predictive power of the model, as well as base macroeconomic projections for identified macroeconomic variables for each sector. The upside and downside scenarios are based on a combination of a percentage error factor of each sector model as well as simulated optimistic and pessimistic macroeconomic projections based on a measure of historical macroeconomic volatilities.

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

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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

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

The economic scenarios used as at 30 June 2019 included the following key indicators for Ethiopia for the years 2019 to 2021:

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Macro-economic factor	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317.4	349.1	384
GDP: GDP per capita, USD	836	928	1019
GDP EXPENDITURE: Exports of goods and services, USD per capita	54.9	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	179.8	213.8	260.3
EXCHANGE RATE: ETB/USD	29.2	31.1	33.2
GDP EXPENDITURE: Imports of goods and services, USDbn	16.6	16.9	17.1
FISCAL: Current expenditure, USDbn	7.8	8.3	8.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	485.3	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	296.3	326	358.6
DEBT: Government domestic debt, ETBbn	642.7	752	872.3
EXCHANGE RATE: Real effective exchange rate,	123.13	121.01	117.74
GDP EXPENDITURE: Private final consumption, USDbn	58.9	66.2	73.5
STRATIFICATION: Household Spending, ETBbn	1707.6	1926.3	2149.3
FISCAL: Total revenue, USDbn	10.5	10.9	11.4
DEBT: Total government debt, USDbn	57	65.2	75.4

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing semi – annual historical data over the past 5 years.

(h) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of: its remaining lifetime PD at the reporting date based on the modified terms; with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit- impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(i) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Banked on the basis of shared risk characteristics that include:
- instrument type;
- credit risk grading;
- collateral type; LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Bankings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

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(j) Loss allowance

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

	2019			
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost (on balance sheet exposures)				
Balance as at 1 July 2018	**186,464**	**1,855**	**170,009**	**358,328**
Day one IFRS 9 transition adjustment	146,329	3,747	10,323	160,399
Adjusted balance at 1 July 2018	**332,793**	**5,602**	**180,332**	**518,727**
Transfer to stage 1 (12 months ECL)	16,609	(2,549)	(14,060)	0
Transfer to stage 2 (Lifetime ECL not credit	(3,129)	3,502	(374)	(0)
Transfer to stage 3 (Lifetime ECL credit impaired)	(9,302)	(245)	9,548	-
Net remeasurement of loss allowance	(70,831)	1,041	207,421	137,631
New financial assets originated or purchased	209,328	3,759	3,042	216,130
Financial assets derecognised	(73,189)	(2,442)	(77,908)	(153,539)
Balance as at 30 June 2019	**402,279**	**8,669**	**308,000**	**718,948**
-	-	-	-	

	2019			
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments and financial guarantee contracts (off balance sheet exposures)				
Balance as at 1 July 2018	**-**	**-**	**-**	**-**
Day one IFRS 9 transition adjustment	52,587	1,070	-	53,657
Adjusted balance at 1 July 2018	**52,587**	**1,070**	**-**	**53,657**
Transfer to stage 1 (12 months ECL)	981	(981)	-	-
Transfer to stage 2 (Lifetime ECL not credit	(4)	4	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net remeasurement of loss allowance	(9,603)	37	-	(9,566)
New financial assets originated or purchased	13,563	-	38	13,601
Financial assets derecognised	(21,881)	(89)	-	(21,970)
Balance as at 30 June 2019	**35,644**	**41**	**38**	**35,722**

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

	2019			
In Birr'000	**Cash and balances with banks**	**Investment securities (debt instruments)**	**Other receivables and financial assets**	**Total**
Other financial assets (debt instruments)				
Balance as at 1 July 2018	**-**	**-**	**416,654**	**416,654**
Day one IFRS 9 transition adjustment	226	271	(384,739)	(384,242)
Adjusted balance at 1 July 2018	**226**	**271**	**31,915**	**32,412**
Net remeasurement of loss allowance	(52)	143	250	341
Balance as at 30 June 2019	**174**	**414**	**32,164**	**32,753**

In Birr'000	Loans and advances to customers at amortised cost	Loan commitments and financial guarantee contracts	Other financial assets	Total charge/(credit)
Net remeasurement of loss allowance	137,631	(9,566)	341	128,405
New financial assets originated or purchased	216,130	13,601	-	229,730
Financial assets derecognised	(153,539)	(21,970)	-	(175,509)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Total	**200,221**	**(17,935)**	**341**	**182,627**

4.3.3 Credit- related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4.3.4 Credit quality analysis

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

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

		2019			**2018**
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to customers at amortised cost					
Stage 1 – Pass	23,211,105	-	-	**23,211,105**	**14,437,463**
Stage 2 – Special mention	-	474,416	-	**474,416**	**213,816**
Stage 3 - Non performing	-	-	752,063	**752,063**	**534,203**
Total gross exposure	**23,211,105**	**474,416**	**752,063**	**24,437,584**	**15,185,482**
Loss allowance	(402,237)	(8,669)	(308,042)	**(718,948)**	**(358,328)**
Net carrying amount	**22,808,868**	**465,747**	**444,021**	**23,718,635**	**14,827,154**

In Birr'000			**2019**	
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	3,481,072	(174)	**3,480,898**
Investment securities (debt instruments)	12 Month ECL	8,285,513	(414)	**8,285,098**
Other receivables and financial assets	Lifetime ECL	574,604	(32,164)	**542,440**
Totals		**12,341,188**	**(32,753)**	**12,308,435**

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In Birr'000		2018	
Other financial assets (debt instruments)	**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	7,676,779	-	**7,676,779**
Investment securities (debt instruments)	5,430,184		**5,430,184**
Other receivables and financial assets	701,134	(416,654)	**284,480**
Totals	**13,808,097**	**(416,654)**	**13,391,443**

4.3.5 Credit concentrations

The Bank monitors concentrations of credit risk by social sector. An analysis of concentrations of credit risk at 30 June 2019, 30 June 2018 and 30 June 2017. The Bank concentrates all its financial assets in Ethiopia.

30 June 2019	**Public Enterprise Birr'000**	**Cooperative Birr'000**	**Private Birr'000**	**Others Birr'000**
Cash and balances with banks	7,169,647	-	-	-
Loans and advances to customers	220,310	3,204,260	20,966,100	-
Investment securities:				
- Equity Envestment	74,566	-	-	-
- Amortized cost	8,285,861	-	-	-
	8,343	-	-	-
	15,758,726	**3,204,260**	**20,966,100**	**-**

30 June 2018	**Public Enterprise Birr'000**	**Cooperative Birr'000**	**Private Birr'000**	**Others Birr'000**
Cash and balances with banks	30 June 2018	-	-	-
Loans and advances to customers	101,680	2,946,650	12,436,680	-
Investment securities:				
- Available for sale	-	-	-	-
- Loans and receivables	Birr'000	-	-	-
Other assets:	-	-	-	-
	101,680	**2,946,650**	**12,436,680**	**-**

30 June 2017	**Public Enterprise Birr'000**	**Cooperative Birr'000**	**Private Birr'000**	**Others Birr'000**
Cash and balances with banks	30 June 2017	-	-	-
Loans and advances to customers	32,370	1,748,830	7,555,700	658,550
Investment securities:				
- Available for sale	-	-	-	-
- Loans and receivables	Birr'000	-	-	-
Other assets:	-	-	-	-
	32,370	1,748,830	7,555,700	658,550

4.3.6 Commitments and guarantees

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Loan commitments	2,728,990	1,949,820	24,113
Guarantees	939,850	334,340	329,182
Letters of credit	1,441,140	766,260	580,468
	5,109,980	3,050,420	933,763

4.4 Liquidity risk

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

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

4.4.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The Bank's liquidity management process, as carried out within the Bank and monitored by fund managment team, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

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4.4.2 Maturity analysis of financial liabilities

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

30 June 2019	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 Birr'000	Over 1 year Birr'000
Deposits from customers	10,767,394	-	-	-	-
Due to other banks	85,362	-	-	-	-
Other liabilities	1,556,217	-	-	-	-
Total financial liabilities	12,408,973	-	-	-	-
Loan commitments	2,728,996	-		-	-
Guarantees		939,850		-	-
Letters of credit		1,441,140	-	-	-
Total commitments	**2,728,996**	**2,380,990**	**-**	**-**	**-**
Assets used to manage liquidity risk					

30 June 2018	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 Birr'000	Over 1 year Birr'000
Deposits from customers	8,916,837	-	-	-	-
Due to other banks	41,691	-	-	-	-
Other liabilities	-	-	-	-	-
Total financial liabilities	8,958,528	-	-	-	-
Loan commitments	1,949,820	-	-	-	-
Guarantees	12,324	89,531	174,326	-	-
Letters of credit	136,209	-	-	-	-
Total commitments	**2,098,353**	**89,531**	**174,326**	**-**	**-**
Assets used to manage liquidity risk					

30 June 2017	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 Birr'000	Over 1 year Birr'000
Deposits from customers	4,577,737	-	-	-	-
Due to other banks	80,823	157,452	-	-	-
Other liabilities	-	-	-	-	-
Total financial liabilities	**4,658,560**	**157,452**	**-**	**-**	**-**
Loan commitments	-	24,113	-	-	-
Guarantees	32,310	122,841	174,032	-	-
Letters of credit	44,866	535,602	-	-	-
Total commitments	**77,176**	**682,556**	**174,032**	**-**	**-**
Asset used to manage liquidity risk					

4.4.3 Financial assets pledged as collaterals

The Bank does not have any assets pledged as collateral

4.5 Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility.
The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the bank Risk Management and the Board's Risk Committee. The bank Risk Management is responsible for the development of detailed risk management policies and procedures (subject to review and approval by the Board's Risk Committee) and for the day to day implementation of those policies.
The Bank does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

4.5.1 Management of market risk

The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates.
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The Bank's exposure to the risk of changes in market interest rates relates primarily to the Bank's obligations and financial assets with floating interest rates. The Bank is also exposed on fixed rate financial assets and financial liabilities. The Bank's investment portfolio is comprised of treasury bills, Ethiopian government bonds and cash deposits.

(ii) **Foreign exchange risk**
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.
The Bank is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The Bank's foreign currency bank accounts act as a natural hedge for these transactions. Management has set up a policy to manage the Bank's foreign exchange risk against its functional currency.

4.6 Capital management

The bank's objectives in managing capital are:
•To comply with the capital requirements set by regulators in the markets where the bank's entities operate and safeguard the bank's
ability to continue as a going concern;
• To maintain a strong capital base that supports the development of the business; and
• To sustain a sufficient level of returns for the bank's shareholders.
Risk-weighted assets are calculated in accordance with regulatory guidelines. Credit risk-weighted assets are measured by applying a hierarchy of risk weights related to the nature of the risks associated with on- and off-balance sheet asset classes.
Operational risk- weighted assets are calculated by applying a scaling factor to the bank's average gross income.
Market risk-weighted assets are calculated by applying factors to the bank's trading exposures to foreign currencies, interest rates, and prices.

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4.6.1 Capital adequacy ratio

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

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base

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

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Capital			
Share capital	2,048,699	1,597,005	1,000,000
Retained earnings	334,523	203,292	56,918
Legal reserve	616,356	451,904	321,050
	2,999,578	2,252,201	1,377,968
Risk weighted assets			
Risk weighted balance for on-balance sheet items	30,609,062	20,426,187	13,123,807
Credit equivalents for off-balance sheet Items	5,109,980	3,050,420	933,763
Total regulatory capital	35,719,042	23,476,607	14,057,570
Total risk weighted assets			
Risk-weighted Capital Adequacy Ratio (CAR)	**8.40%**	**10%**	**10%**
Minimum required capital	**8.00%**	**8%**	**8%**

4.7 Fair value of financial assets and liabilities

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.
IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

4.7.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) .

This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data. In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

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

The following table summarises the carrying amounts of financial assets and liabilities at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	30 June 2019		30 June 2018		30 June 2017	
	Carrying amount Birr'000	Fair Value Birr'000	Carrying amount Birr'000	Fair Value Birr'000	Carrying amount Birr'000	Fair Value Birr'000
Financial assets						
Cash and balances with banks	7,169,649	7,169,649	7,676,779	7,676,779	3,537,671	3,537,671
customers	21,404,500	21,404,500	14,711,523	14,711,523	9,503,388	9,503,388
Interest free financing	2,202,251	2,202,251	433,404	433,404	22,590	-
Investment securities	-	-				
-Equity Investment	74,566	74,566	40,269	40,269	53,420	-
-Amortized Cost	8,285,861	8,285,861	5,430,184	5,430,184	3,348,596	-
Other asset	1,736,333	1,736,333	913,932	913,932	806,284	-
Total	39,136,827	39,136,827	28,292,159	28,292,159	17,271,949	13,041,059
Financial liabilities						
Deposits from customers	35,845,307	35,845,307	25,392,151	25,392,151	14,057,645	14,057,645
Due to other banks	322,984	322,984	415,439	415,439	238,275	238,275
Other liabilities	2,153,305	-	-	-	799,018	799,018
Total	38,321,596	36,168,291	25,807,590	25,807,590	15,094,938	15,094,938

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4.7.3 Fair value methods and assumptions

(a) Loans and advances to customers

Loans and advances to customers are carried at amortised cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(b) Cash

The carrying amount of cash and balances with banks is a reasonable approximation of fair value.

(c) Deposit from banks, due to customers and other deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.
The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.
For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(d) Other assets

The bulk of these financial assets have short term (less than 12 months) maturities and their amounts are a reasonable approximation of fair value

(e) Other liabilities

The carrying amount of financial liabilities in other liabilities is a reasonable approximation of fair value because these are short term in nature with a maturity of less than one year.

4.7.4 Transfers between the fair value hierarchy categories

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

4.8 Offsetting financial assets and financial liabilities

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

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Interest free banking statement of profit or loss

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Commission income	26,518	5,513	1,058
Income from murahaba financing	-	-	491
Income from trade financing	51,058	14,839	-
Total operating income	**77,576**	**20,352**	**2,991**
Other operating expenses	(11,785)	(8,216)	(1)
	65,791	12,137	2,989
Profit before tax	**65,791**	**12,137**	**2,989**

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Interest free banking statement of financial position

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
ASSETS				
Cash and balances with banks	570,050	279,000	451,287	73,406
Net loan and advance	2,202,251	363,000	22,590	-
Profit Receivable	466,108	70,000		
Other assets	1,761,950	1,506,090	17,433	7,694
Total assets	**5,000,359**	**2,218,090**	**491,310**	**81,100**
LIABILITIES				
Deposits from customers	5,000,359	2,218,000	478,493	80,729
Other liabilities	-	90	12,817	371
Total liabilities	**5,000,359**	**2,218,090**	**491,310**	**81,100**

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DEFERRED TAX LIABILITY

	Birr
Deferred tax (liability) asset brought forward	23,311,904
Add: Temporary difference	3,329,980
Deferred tax liability as at June 30,2019	**26,641,883**
Fixed asset - carrying amount	651,640,456
Fixed assets - tax base	541,717,179
	109,923,278
Deferred tax liability - Birr @ 30%	**32,976,983**
Severance pay - carrying amount	21,117,000
Severance pay - tax base	-
Severance pay temporary difference	21,117,000
Deferred tax Asset - Birr 21,117,000 @ 30%	**6,335,100**
Deferred tax liability - @ 30%	**(26,641,883)**

SCHEDULES OF PROFIT TAX COMPUTATION

(a) Component of tax expenses

Current tax expense (Note b)	105,921,557
Deferred tax (Note above)	(3,329,980)
	102,591,578

(b) Current Tax

	Birr
IFRS Accounting profit	767,013,336
Add : Disallowed expenses	
Entertainment	2,968,190
Donation	6,426,435
Legal provision	2,170,392
General Assembly	1,040,450
Penalty	175,915
Obligation (Severance pay temporary difference)	21,117,000
Awards	-
Provision for loans and advances as per IFRs	169,143,555
Depreciation for accounting purpose	(26,310,628)
Amortization for accounting purpose	12,764,965
	189,496,274
Less :	
Depreciation for tax purpose	94,672,319
Provision for loans and advances for tax NBE 80%	135,310,549
Interest income taxed at source foreign	639,568
Dividend income taxed at source	3,897,463
Suspended Interest Income	54,358,115
Interest income taxed at source-NBE Bills	213,790,325
Interest income taxed at source-Local Deposit	100,769,413
	603,437,752
Taxable profit	353,071,858
Current tax at 30%	**105,921,557**

(c) The movement of Profit Tax Payable

	Birr
Balance brought forward	202,436,508
Add : Provision for the year	105,921,557
Less: Direct settlement	-
Less : Withholding tax paid	555,709
Less : Payment during the year	202,436,508
Balance at the year end	***105,365,848.84***

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		30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
5	**Interest income**			
	Loans and advances to customers	2,433,864	1,620,469	990,501
	Suspended Interest Income	63,987	62,112	21,819
	National Bank of Ethiopia bills and bonds	214,099	121,133	71,414
	Due from other banks	101,409	46,312	60,083
		2,813,359	**1,850,025**	**1,143,817**

		30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
6	**Interest expense**			
	Due to customers	1,035,111	620,365	336,245
		1,035,111	620,365	336,245

		30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
	Net fees and commission income			
7	**Fee and commission income**			
	Foreign currency transactions	474,075	308,716	256,867
	Letter of guarantee	26,361	27,280	34,345
	Cash payment orders and cheques	-	644	614
	Demand drafts	-	-	5,546
	Other commission	44,409	17,437	3,937
		544,845	354,076	301,309
	Fee and commission expense	-	-	-
	Net fees and commission income	544,845	354,076	301,309

		30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
8	**Other operating income**			
	Income from Murahaba financing	51,058	14,839	491
	Dividend income	4,151	2,713	7,812
	Estimation and inspection fee	20,316	10,982	560
	Gain on disposal of property plant and equipment	177	1,313	7
	Gain on foreign currency transactions	242,484	204,831	75,256
	Other income	35,276	66,174	11,169
	Rental income	1,631	1,069	1,087
	Swift and Correspondence charges	-	1,124	1,544
	Telephone, postages and money bags	116	867	1,674
		355,210	303,912	99,600

		30 June 2019 Birr'000	30 June 2018 Birr'000
9	**Impairment charge**		
	Loans and advances to customers - charge for the year	35,480	(66,077)
	Loans and advances to customers - Reversal for the year	-	-
		35,480	(66,077)
	Other assets - charge for the year	-	2,337
	Impairment Loss on repossessed collateral	2,368	1,414
	Impairment on Investment	(13,151)	13,151
	Impairment Loss on PPE	4,243	7,073
		28,939	(42,103)

		30 June 2019 Birr'000	30 June 2018 Birr'000
10	**Personnel expenses**		
	Salaries and wages	609,401	477,160
	Staff allowances	77,690	57,992
	Staff Award	771	-
	Pension costs – Defined contribution plan	61,414	41,830
	Pension costs – Defined Benefit plan	9,544	5,390
	Prepaid staff expenses	8,217	2,065
	Other staff expenses	191,928	115,994
		958,965	700,430

		30 June 2019 Birr'000	30 June 2018 Birr'000
11	**Operating expenses**		
	Advertisement and publicity	52,565	41,717
	Amortisation of leasehold	7	7
	Audit fee	497	143
	Bank charges	896	1,145
	Board of directors remuneration	300	
	Cleaning	1,078	764
	Data processing	17,542	11,974
	Donations	36,486	2,611
	Entertainment	2,968	1,989
	Fuel	7,212	5,421
	Insurance	20,313	10,834
	Internet	17,268	17,415
	Legal and professional fee	99	242
	Other operating expense	179,518	39,856
	Penalty	176	421
	Per diem	11,800	9,625
	Rent	160,325	122,186
	Repair and maintenance	15,572	12,397
	Representation allowance	38,002	28,139
	Stationeries	57,120	58,409
	Subscription and membership fee	1,629	872
	Taxes	63	11
	Telephone and postage	277	325
	Transportation	77,988	58,175
	Water and electricity	4,745	3,260
	Loss on foreign exchange transactions	137,798	70,788
		842,243	498,726

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In this fiscal year a total of Birr 157,257,489 is reported to be lost in various part of the country due to robbery for which the bank held adequate provision or ECL taking into consideration claim process being under going

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
12 Company income and deferred tax			
12a Current income tax			
Company income tax	105,922	132,434	93,411
Deferred income tax/(credit) to profit or loss	3,330	13,966	(886)
Total charge to profit or loss	109,252	146,400	92,525
Tax (credit) on other comprehensive income	-	-	-
Total tax in statement of comprehensive income	109,252	146,400	92,525

12b Reconciliation of effective tax to statutory tax

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

	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Profit before tax	767,013	669,817	430,711
Add : Disallowed expenses			
Entertainment	2,968	1,989	1,447
Donation	6,426	2,611	2,157
Legal provision	2,170		
General Assembly	1,040		
Penalty	176	421	689
Severance pay	21,117	12,806	4,539
Provision for loans and advances as per IFRS	169,144	36,360	98,745
Depreciation for accounting purpose	(26,311)	(36,495)	(17,908)
Amortization for accounting purpose	12,765	7,849	7,011
Total disallowable expenses	**189,496**	**25,541**	96,680
Less : Allowable expenses			
Depreciation for tax purpose	94,672	78,103	81,118
Provision for loans and advances for tax NBE 80%	135,311	5,984	(3,040)
Interest income taxed at source foreign	640	453	258
Dividend income taxed at source	3,897	2,713	7,812
Suspended Interest Income	54,358		
Interest income taxed at source-NBE Bills	213,790	120,799	70,049
Interest income taxed at source-Local Deposit	100,769	45,859	59,825
Total allowable expenses	603,438	253,910	216,022
Taxable profit	353,072	441,448	311,369
Current tax at 30%	105,922	132,434	93,411

12c **Current income tax liability**	30 June 2019 Birr'000	30 June 2018 Birr'000
Balance at the beginning of the year	202,437	97,432
Charge for the year:	105,939	(27,422)
Income tax expense	(202,437)	132,434
Payment during the year	(556)	(7)
Balance at the end of the year	105,384	202,436

12d **Deferred income tax**

The following table shows deferred tax recorded in the statement of financial position and changes recorded in expense:

	30 June 2019 Birr'000	30 June 2018 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(26,642)	(23,312)
To be recovered within 12 months		
	(26,642)	(23,312)

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

Deferred income tax assets/(liabilities):	At 1 July 2018 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2019 Birr'000
Property, plant and equipment	(27,154)	(5,823)		(32,977)
Provisions	-			-
Unrealised exchange gain	-			-
Tax losses charged to profit or loss	-			-
Post employment benefit obligation	3,842	2,493		6,335
Total deferred tax assets/(liabilities)	(23,312)	(3,330)	-	(26,642)

Deferred income tax assets/(liabilities):	At 1 July 2017 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2018 Birr'000
Property, plant and equipment	(10,708)	(16,446)		(27,154)
Provisions				-
Unrealised exchange gain				-
Tax losses charged to profit or loss				-
Post employment benefit obligation	1,362	2,480		3,842
Total deferred tax assets/(liabilities)	(9,346)	(13,966)	-	(23,312)

Deferred income tax assets/(liabilities):	At 1 July 2016 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2017 Birr'000
Property, plant and equipment	(12,982)	2,274	-	(10,708)
Post employment benefit obligation	2,750	(1,388)	-	1,362
Total deferred tax assets/(liabilities)	(10,232)	886	-	(9,346)

Chartered Certified Accountants (UK)
Kokeb & Melkamu Audit Work Partnership

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	30 June 2019 Birr'000	30 June 2018 Birr'000
13 Cash and balances with bank		
Cash in hand	3,622,263	3,163,227
Deposits with local banks	1,254,821	561,511
Deposits with foreign banks	367,461	669,401
	5,244,545	4,394,139
Reserve with National Bank of Ethiopia	1,865,000	1,280,000
Balance held with National Bank of Ethiopia	60,104	2,002,640
	7,169,649	**7,676,779**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	5,304,649	6,396,779
Non-Current	1,865,000	1,280,000
	7,169,649	7,676,779

	30 June 2019 Birr'000	30 June 2018 Birr'000
13a Cash and cash equivalent		
Cash in hand	3,622,263	3,163,227
Deposit with local banks	1,254,821	561,511
Deposits with foreign banks	367,461	669,401
Balance held with National Bank of Ethiopia	60,104	2,002,640
	5,304,649	**6,396,779**

During the fiscal period a total 157,257,489 is reported to be lost in various part of the country for which the bank held addequate provision or ECL taking into consideration claim process being under going

	30 June 2019 Birr'000	30 June 2018 Birr'000
14 Loans and advances to customers		
Agriculture	243,733	236,940
Manufacturing	2,961,512	2,829,014
Export	5,697,577	4,301,072
Merchandise	801,462	380,414
Import	922,635	567,922
Domestic trade and service	9,375,811	5,416,852
Building and construction	970,499	410,839
Staff loans	1,185,941	922,926
Gross amount	22,159,170	15,065,979
Less: Impairment allowance		
- Specific impairment	-	(112,269)
- ECL (Expected Credit Loss)	(754,670)	(242,187)
- Suspended Interest	(0)	(3,874)
Net Conventional Loan Balance	21,404,500	14,711,523

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	15,152,818	10,518,519
Non-Current	6,251,681	4,339,683
	21,404,500	**14,858,202**

	30 June 2019 Birr'000	30 June 2018 Birr'000
15 Interest free Financing		
Agriculture	25,980	3,502
Manufacturing	787,760	59,194
Export		58,745
Import	816,750	105,825
Domestic trade and service	349,610	116,350
Building and construction	177,160	24,023
Others	44,991	
Profit Recivable		69,639
	2,202,251	437,278
Less Collective Impairment	-	(3,874)
	2,202,251	**433,404**

	30 June 2019 Birr'000	30 June 2018 Birr'000
16 Investment securities		
Equity Investments	54,052	53,420
Fair value gain	20,514	
Accumulated Impairment of Investment	-	-13,151
	74,566	40,269

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16a The following are the equity investments of the Bank as at 30 June 2019, 30 June 2018, 1 July 2017:

	Percentage holding	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Oromia Insurance Company s.c.	5%	17,679	12,500	12,500
Orologo Prefabricated Factory plc	20%	15,000	15,000	15,000
Gutu Oromia s.c.	17.7%	3,500	3,500	3,500
Elemtu Integrated Milk Industry	7.6%	4,509	5,000	5,000
Ethio Swich s.c.	5.6%	26,802	11,370	11,370
Premium Switch Solution(PSS)	3.2%	5,826	4,800	4,800
Bomoj Meat Industry s.c.	1.58%	1,250	1,250	1,250
Accumulated Impairment of Investment		-	(13,151)	-
		74,566	40,269	**53,420**

The Bank hold equity investments in Eth-switch of 5.6% (30 June 2019), Premium Switch Solutions 3.2% (30 June 2019), Oromia Insurance Company 5% (30 June 2019), Gutu Oromia Business 17.7% (30 June 2019), Orologo Prefabricated PLC 20% (30 June 2019), Elemutu Integrated Milk Industry 7.6% (30 June 2019) and Bomoj Meat Processing and Export s.c 1.58% (30 June 2019). These investments are unquoted equity securities measured at cost.

Equity instruments are instruments that meet the definition of equity from the holder's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Equity instruments are measured at FVTPL. However, on initial recognition of an equity investment that is not held for trading, the bank may irrevocably elect for strategic or long term investment reasons to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. On adoption of the standard, the bank did designate all of its equity instruments as FVTOCI. Gains and losses on these instruments including when derecognised/ sold are recorded in OCI and are not subsequently reclassified to the Income Statement.

17 Amortized Cost:

	30 June 2019	30 June 2018	30 June 2017
Ethiopian Government Bills	8,279,456	5,424,087	3,342,834
Ethiopian Government Bonds	6,405	6,096	5,762
Gross amount	**8,285,861**	**5,430,184**	**3,348,596**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Current	665,280	154,037	296,432
Non-Current	7,620,581	5,276,147	3,052,164
	8,285,861	5,430,184	3,348,596

18 **Other assets**	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Financial assets		
Uncleared effects of transfers - Foreign	222,969	223,003
Uncleared effects of transfers - Local	85,370	138,850
ATM settlement receivables	8,344	5,209
Money transfer agents	10,764	8,054
Export settlement	257,425	257,424
Advance on murabaha	18,284	-
Account receivable	348,303	68,594
Gross amount	**951,459**	**701,134**
Less: Specific impairment allowance	(32,753)	(416,654)
	918,706	**284,480**
Non-financial assets		
Repossessed collateral	(1)	-
Profit from murabaha financing	-	-
Fixed asset in store	117	-
Prepaid staff expense	195,852	159,413
Prepayment for new branch opening	12,477	6,031
Prepayments	552,972	423,556
General supplies	56,208	40,443
Sundry receivables	2	9
Accumulated Impairment on repossessed collateral	0	
	817,627	**629,452**
Gross amount	**1,769,086**	**1,330,586**

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	932,043	493,542
Non-Current	837,043	837,044
	1,769,086	**1,330,586**

18a **Impairment allowance on other assets**

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

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
Balance at the beginning of the year	416,654	414,317
Charge for the year	-	2,337
Balance at the end of the year	416,654	416,654

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19 **Intangible Assets**	**Purchased software Birr'000**	**Total Birr'000**
Cost:		
As at 1 July 2016	14,537	14,537
Acquisitions	-	-
Internal development	-	-
As at 30 June 2017	**14,537**	**14,537**
As at 1 July 2017	**14,537**	**14,537**
Acquisitions	35,163	35,163
Internal development		-
As at 30 June 2018	49,700	49,700
As at 1 July 2018	**49,700**	**49,700**
Acquisitions	1,223	1,223
Internal development		-
As at 30 June 2019	50,922	50,922
Accumulated amortisation		
As at 1 July 2016	6,168	6,168
Amortisation for the year	1,813	1,813
As at 30 June 2017	7,981	7,981
As at 1 July 2017	7,981	7,981
Amortisation for the year	1,817	1,817
As at 30 June 2018	9,798	9,798
Accumulated amortisation		
As at 1 July 2018	**9,798**	**9,798**
Amortisation for the year	6,359	6,359
As at 30 June 2019	16,157	16,157
Net book value		
As at 1 July 2016	8,369	8,369
As at 30 June 2017	6,556	6,556
As at 30 June 2018	39,902	39,902
As at 30 June 2019	34,765	34,765

	Building Birr'000	Motor vehicles Birr'000	Office furniture, fittings & equipment Birr'000	Computer equipment Birr'000	Construction in progress Birr'000	Total Birr'000
20 Property, plant and equipment						
Cost:						
As at 30 June 2018	**16,150**	**188,011**	**285,176**	**158,622**	**127,666**	**775,625**
Additions	31,966	28,072	67,157	41,535	19,062	187,791
Disposals	-	-	-	-	-	-
Reclassification	-	11,800	34,406	29,958	-	76,164
Transfer to Non-Asset Held to Sale	-	-	(2,888)	(1,844)		(4,731)
As at 30 June 2019	**48,116**	**227,883**	**383,601**	**227,817**	**146,728**	**1,034,849**
Accumulated depreciation						
As at 30 June 2018	**1,414**	**49,173**	**91,084**	**69,257**	**-**	**210,928**
Charge for the year	1,154	17,922.95	32,865.20	22,777	-	74,719
Disposals	-	(978)	(5,181)	(3,858)	-	(10,017)
Transfer to Non-Asset Held to Sale	-	-	(2,119)	(1,393)		(3,511)
As at 30 June 2019	**2,568**	**66,118**	**116,649**	**86,784**	**-**	**272,119**
Accumulated Impairment						
As at 30 June 2018	**-**	**-**	**4,834**	**2,159**	**-**	**6,993**
Charge for the year						
Disposals	-	-	-	-	-	-
Transfer to Non-Asset Held to Sale	-	-	(581)	(400)	-	(981)
As at 30 June 2019	**-**	**-**	**4,253**	**1,759**	**-**	**6,012**
Net book value						
As at 30 June 2018	**14,736**	**138,838**	**189,258**	**87,206**	**127,666**	**557,704**
As at 30 June 2019	**45,548**	**161,765**	**262,699**	**139,273**	**146,728**	**756,717**

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20A Non-current assets held for sale

	30 June 2019 Birr'000	30 June 2018 Birr'000
Balance at the beginning of the year	1	-
Additional Repossessed collateral from the borrower for the year		-
Transfer from repossessed collateral /Other Asset	125,933	84,329
Transfer from property, plant and equipment	4,731	7
ReversaL of Repossessesd collateral	(4,492)	-
Disposals of property, plant and equipment	-	-
Fair value gain/(loss) on assets held for sale	-	-
Balance at the end of the year	**126,173**	**84,336**

Cooperative Bank of Oromia S.C. took over collateral of some customers and classified as non current asset held for sale as the Bank had no intention to make use of the property for administrative use. Management initiated a plan to dispose of these assets to willing buyers and expects to have completed the transaction before the end of the next financial period.
There is no cumulative income or expenses in OCI relating to assets held for sale.

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	30 June 2019 Birr'000	30 June 2018 Birr'000
21 **Deposits from customers**		
Demand deposits	10,767,394	8,916,837
Savings deposits	18,573,347	13,748,812
Time deposits	1,500,760	504,573
Wadia demand deposits	861,365	305,088
Wadia savings deposits	4,138,989	1,913,190
Mobile money savings	3,450	3,651
	35,845,307	**25,392,151**

	30 June 2019 Birr'000	30 June 2018 Birr'000
22 **Due to other banks**		
Demand deposits	85,362	41,691
Saving deposits	237,622	111,782
Time deposits	-	261,966
	322,984	**415,439**

	30 June 2019 Birr'000	30 June2017 Birr'000
23 **Borrowing**		
Borrowing from NBE	-	-
	-	**-**

	30 June 2019 Birr'000	30 June 2018 Birr'000
24 **Other liabilities**		
Financial liabilities		
Interest payable on deposits	-	0
Letter of credit margin payables	664,258	896,719
ATM settlement payable	14,061	8,035
Dividend payables	19,782	112
Blocked accounts	13,270	11,792
Telegraphic and Money transfer payable	4	2,017
Over the Counter Cash Payment (OTCP)	800	804
Exchange payable	12,012	78,720
Money transfer agent	(92,027)	-
Cash payement order payable	777,091	123,594
Long standing payables	-	2
Board of directors remuneration payable	1,265	998
Staff payables	142,727	79,943
Advance from suppilers	2,905	10,606
Hamish Jiddiya	-	-
Cash collateral on gaurantees	69	-
	1,556,217	**1,213,342**

Blocked accounts represent customer accounts on which the court has given order to be frozen pending the end of litigation

Non-financial liabilities

Defined contribution liabilities	2,569	1,815
Termination benefit	-	-
Leasehold land liability	-	(0)
Stamp duty charges	955	694
Withholding tax payable	1,300	768
Other tax payable	15,224	10,406
Deeferred Income Loan Processing Fee	6,973	3,888
Deeferred Income Guarantee Commission	28,331	5,427
Deeferred Income LC Commission	24,107	24,898
Deferred Income- IFB	-	69,632
Sundry payables	517,629	121,611
	-	-
	597,088	**239,139**
Gross amount	**2,153,305**	**1,452,481**

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	271,074	271,075
Non-Current	1,882,231	1,181,406
	2,153,305	**1,452,481**

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
25 **Retirement benefit obligations**		
Defined benefits liabilities:		
– Severance pay (note 25a)	47,630	26,513
Liability in the statement of financial position	**47,630**	**26,513**
Income statement charge included in personnel expenses:		
– Severance pay (note 25a)	9,544	5,390
Total defined benefit expenses	**9,544**	**5,390**
Remeasurements for:		
– Severance pay (note 25a)	(11,573)	(7,416)
	(11,573)	**(7,416)**

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

Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	-	-
Non-Current	(11,573)	(7,416)
	(11,573)	**(7,416)**

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25a **Severance pay**

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

Below are the details of movements and amounts recognised in the financial statements:

	30 June 2019 Birr'000	30-Jun-2018 Birr'000
A **Liability recognised in the financial position**	47,630	26,513

B **Amount recognised in the profit or loss**	30 June 2019 Birr'000	30 June 2018 Birr'000
Current service cost	5,612	3,437
Interest cost	3,932	1,953
	9,544	**5,390**

C **Amount recognised in other comprehensive income:**		
Actuarial (Gains)/Losses on demographic assumptions		
Actuarial (Gains)/Losses on economic assumptions	(3,107)	(6,110)
Actuarial (Gains)/Losses on experience	(8,466)	(1,306)
	(11,573)	**(7,416)**

D **Change in the present value of the defined benefit obligation**

The movement in the defined benefit obligation over the years is as follows:

	30 June 2019 Birr'000	30 June 2018 Birr'000
At the beginning of the year	26,513	13,707
Current service cost	5,612	3,437
Interest cost	3,932	1,953
losses	11,573	7,416
At the end of the year	**47,630**	**26,513**

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2019 Birr'000	30-Jun-2018 Birr'000
Discount Rate (p.a)	11.25%	12.31%
Long term salary increases	12.00%	12.00%

ii) Mortality in Service

The rate of mortality assumed for employees are those published in the Demographic and Health Survey ("DHS") 2016 report compiled by the CSA. The DHS report provides male and female mortality rates for 5 year age bands from age 15 to age 49. For ages over 47 we have assumed that mortality will be in line with the SA85/90 ultimate standard South African mortality tables published by the Actuarial Society of South Africa ("ASSA").

since the rates in these tables are similar to the DHS female mortality rate at age 47.. These rates combined are

Age	Mortality rate Males	Mortality rate Females
20	0.00306	0.00223
25	0.00303	0.00228
30	0.00355	0.00314
35	0.00405	0.00279
40	0.00515	0.00319
45	0.00450	0.00428
50	0.00628	0.00628
55	0.00979	0.00979
60	0.01536	0.01536

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 15% at the youngest ages falling with increasing age to 2.5% at age 45.

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

		Impact on defined benefit obligation			
		30 June 2019		30 June 2018	
	Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	0.5%			(891)	926

		Impact on current service cost			
		30 June 2019		30 June 2018	
	Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	0.5%			(168)	175

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

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the severance pay plan at the end of the reporting period is 2.78 years.

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		30 June 2019 Birr'000	30 June 2018 Birr'000
26	**Share capital**		
	Authorised:		
	Ordinary shares of Birr 100 each	3,000,000	3,000,000
	Issued and fully paid:		
	Ordinary shares of Birr 100 each	2,048,699	1,597,005

		30 June 2019 Birr'000	30 June 2018 Birr'000
26	**Share premium**		
	At the beginning of the year	8,672	8,672
	Addition during the year	-	-
		8,672	8,672

27 **Earnings per share**

Basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit attributable to shareholders	657,808	523,416
Weighted average number of ordinary shares in issue	18,088	12,391
Basic & diluted earnings per share (Birr)	36.366	42

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2019:nil, 1 July 2018: nil), hence the basic and diluted loss per share have the same value.

		30 June 2019 Birr'000	30 June 2018 Birr'000
28	**Retained earnings**		
	At the beginning of the year	203,292	56,918
	Profit/ (Loss) for the year	657,808	523,416
	Director's share of profit	(1,265)	(998)
	Transfer to Legal reserve	(164,452)	(130,854)
	Transfer to Risk reserve	(157,548)	(62,112)
	Transfer to Dividend Payable	(203,313)	(183,079)
	At the end of the year	**334,523**	**203,292**

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	30 June 2019 Birr'000	30 June 2018 Birr'000
29 Legal reserve		
At the beginning of the year	451,904	321,050
Transfer from profit or loss	164,452	130,854
At the end of the year	**616,356**	**451,904**

The NBE Directive No. SBB/4/95 states requires the Bank to transfer annually 25% of its annual net profit to its legal reserve account until such account equals its capital. When the legal reserve account equals the capital of the Bank, the amount to be transferred to the legal reserve account will be 10% (ten percent) of the annual net profit.

	30 June 2019 Birr'000	30 June 2018 Birr'000
30 Risk reserve		
At the beginning of the year	110,896	56,200
Transfer From Retained Earning	157,548	62,112
Revaluation Gain-Equity Investment	20,514	
Other comprehensive income	(11,573)	(7,416)
At the end of the year	**277,384**	**110,896**

	30 June 2019 Birr'000	30 June 2018 Birr'000
31 Capital reserves		
At the beginning of the year	3,932	3,932
Additional capital	-	-
	3,932	3,932

Capital reserve represents donation received from the regional government of Oromia without imposed

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
32 Cash generated from operating activities			
Profit before income tax		767,078	669,817
Adjustments for non-cash items:			
Effects of foreign exchange	8	(242,485)	(204,830)
Depreciation of property, plant and equipment	20	74,719	58,961
Amortisation of intangible assets	19	6,359	1,818
Impairment on loans and receivables	14	35,479	(66,076)
Impairment of PPE		4,242	7,073
Reversal impairment on repossessed collateral		(3,627)	
Transfer of PPE to Non current asset held for sale		(4,732)	
Reversal of impairment on other assets	18	-	2,337
Retirement benefit obligations	25	9,544	5,390
Changes in working capital:			
-Decrease/(increase) in restricted cash	13	(585,000)	(550,000)
-Decrease/ (Increase) in loans and advances	14	(7,093,190)	(5,138,186)
-Decrease/ (Increase) in interest free banking	15	(1,764,974)	(414,688)
-Decrease/ (Increase) in other assets	18	(438,501)	(109,985)
Decrease/ (Increase) Non current asset held for sale		(41,837)	
Decrease/Increase in Customers deposits	21	10,453,156	11,334,506
-Decrease/Increase in Due to other banks	22	(92,455)	177,164
-Increase/ (Decrease) in other liabilities	24	700,824	48,372
		1,784,600	**5,821,673**

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33 Related party transactions

CBO (S.C.) was registered commercially on October 29, 2004 in accordance with article 304 of Commercial Code of Ethiopia. It was established in line with proclamation no. 84/1994 with authorized capital of Birr 300 million. It started operation on 8th march 2005, with paid up share capital of birr 112 million. CBO is largely owned by cooperatives with primary cooperatives having 51.62%, cooperatives union 10.73%, cooperatives federation 0.52% and non-cooperatives; organizations and associations 20.47% and individuals 16.67%. The bank has entered into a number of transactions with related parties as at 30 June 2019.

A number of transactions were entered into with related parties in the normal course of business.
These are disclosed below:

	30 June 2019 Birr'000	30 June 2018 Birr'000
33a *Transactions with related parties*		
Loans and advances to key management	25,327	22,203
Cooperatives and union	1,866,760	
	1,892,087	22,203

33b *Key management compensation*

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Salaries and other short-term employee benefits	8,510	4,885
Sitting allowance	492	462
Other expenses	549	785
	9,551	6,132

Compensation of the Bank's key management personnel includes salaries and non-cash benefits.

33c *Board of Directors compensation*

Directors allowances represent monthly allowance of birr 10,000 per month and annual compensation of birr 150,000 per each member of board of directors of the bank.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit sharing	1,266	-
	1,266	480

34 Contingent liabilities

34a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2019 is birr 53,160,541 (30 June 2018 birr 85,929,291 ,30 June 2017: Birr 93,358,789, 1 July 2016: 12,946,072). provision has been made in the financial statements as at 30 June 2019 is birr 2,170,391.70.

34 Contingent Assets

The Bank is a party to numerous legal actions initiated by the Bank against different organizations, current and former employees of the Bank and individuals arising from its normal business operations. The matter has been referred to the court and, having received legal advice, the directors believe that a favorable outcome is probable. The maximum amount expected from these cases as at June 30,2019 is birr 125,202516.32 and 30 June 2018 Birr 20,405,416 ,30 June 2017 : Birr 15,926,297 (1 July 2016: nill). However, this has not been recognized as a receivable at the year end as receipt of the amount is dependent on the outcome of the court

34c Guarantees and letters of credit

The Bank conducts business involving performance bonds and guarantees. These instruments are given as a security to support the performance of a customer to third parties. As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

The table below summarizes the amount of contingent liabilities for the account of customers:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Guarantees issued	939,850	334,340
Letters of credit	1,441,140	766,260
Loan approved but not disbursed	2,728,996	
	5,109,986	1,100,600

36 Operating lease commitments - Bank as lessee

The Bank leases various properties under non-cancellable operating lease agreements. The lease terms are between two and five years, and majority of these lease agreements are renewable at the end of the each lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2019 Birr'000	30 June 2018 Birr'000
No later than 1 year	5,007	3,679
Later than 1 year and no later than 2 years	4,955	3,645
Later than 2 years but not later than 5 years	99,594	75,754
Total	109,556	83,078

Cooperative Bank of Oromia

Kokeb & Melkamu Audit Work Partnership Chartered Certified Accountants (UK)

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37 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2019 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.