ANNUAL REPORT 2018

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Zemen BANK

...LOCAL KNOWLEDGE...
INTERNATIONAL STANDARDS!

VISION

To be “Ethiopia’s Five-Star Bank”.

CONTENTS

Mission:

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

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

To provide our shareholders satisfactory returns on a sustainable basis

Our value Include:
Upholding the highest standards, being progressive and innovative

BOARD OF DIRECTORS

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

Dr. Theodros Atlabachew
Board Deputy Chairman

Amare Habe
Board Director

AddisAlem Kedir
Board Director

Mikre Ayalew
Board Director

Bezuwork Mamo
Board Director

Prof. Emana Getu
Board Director

Mieraf Shewaye
Board Director

Abebe Chekole
Board Director

SENIOR MANAGEMENT

Dereje Zebene
President / CEO

Solomon Mamo
Vice President-Operations

Meseret Wondim
Vice President-Corporate Resources Managment

Firehiwot Birke
Vice President-Customer Service

Amha Tadesse
Vice President-Information Technology

Kassahun Ayalew
Director-Corporate & Institutional Banking Department

Nebyou Tekola
Director- Private and Business Banking

Ojeuna Mekconenn
Director-Promotion and public Relations Department

Dereje Miheretu
Director-Credit Department

Biniyam Abraham
Director-International Banking Department

Bayush Berhanu
Director-Multichannel Banking Department

Elias Kinfegebriel
Director-Human Resource Department

Kassahun Mereawi
Director-Engineering Department

Gadissa Mamo
Director Finance Department

Taye Nigatu
Director-Facilities Managment Department

Tesfaye Salilew
Director Infastructure & Channel Managment Department

Tewahido Tafessa
Director-Knowledge and Innovation Department

Haileyesus Mezgebu
Director-IT Project Department

Phylipos Mitiku
Director-core Banking & Software Development Department

Adugna Mekonnen
Director-Risk and Compliance Managment Department

Yohannes Getachew
Director-Internal Audit Department

Adamseged Belay
Director Legal Counsellor

CHAIRMAN'S STATEMENT

Year ended 30 June 2018

Dear Shareholders,

It gives me immense pleasure to present the financial statements of Zemen Bank S.C. for the year ended June 30, 2018. During the year under review, Zemen Bank has witnessed another successful year at the end of its nine years of operations in the financial sector.

The global economic development in the past fiscal year was encouraging with relatively stable inflation. Economic development in the USA, European Union, China and Japan continues to grow contributing for more investment and consumption. However, the macroeconomic development in Ethiopia during the 2017/18 financial year has encountered numerous challenges, ranging from the pubic unrest and population displacement, the state of emergency declared throughout the nation to chronic foreign exchange shortage and worsening inflation, all affecting businesses and the overall economy of the nation. The economy grew by only 7.7 percent which is a ten year low record.

The Birr has further weakened to a 15 percent depreciation against USD in October 2017, which effectively pushed the annual depreciation to more than 20 percent. A 30 percent foreign exchange surrender was also introduced in October of the same year by the central bank that limits availability of foreign exchange to customers. The minimum saving interest rate raised to 7 percent while maintaining the NBE bills purchase at 3 percent. These moves raised the cost of goods and shrink the Banks income during the period. The continued shortage of foreign exchange contributed particularly to the declining of economic growth and less appetite for credit during the fourth quarter. It is also worth noting that there was a change of leadership in the Bank: new President was appointed and new Board of Directors were elected.

Despite the prevalence of the above-mentioned unfavorable conditions marked with significant impacts on the national economy in general and the banking sector in particular, Zemen Bank has registered remarkable resilience in dealing with the difficult conditions. As a result, we are happy to report that Zemen Bank has demonstrated encouraging performances.

Our focus on customers, as well as our diversified business model and strong risk discipline, have helped us to produce another solid year of positive financial performance. These results validated the continued team effort exerted by the Board, Management and the entire staff of Zemen Bank S.C.

Revenue grew by 15 percent from last year while deposits and loans grew by 28 percent and 25 percent, respectively. In another key performance

indicator, the Bank reflected a more diversified credit portfolio to ensure a better loan quality; with non-performing loans (NPLs) ratio of 3.78 percent, which is well below the regulatory requirement of 5 percent.

During the year under review, the Bank continued to expand its service outlets in Addis Ababa and regional administrative cities to increase its accessibility to the public and meet demands of customers. In this effort, the total number of branches and Kiosk banking centers has reached twenty-six outlets. Furthermore, efforts continue to enhance our alternative banking channels through deployment of improved Internet Banking system, Mobile Banking solutions and growth in our highly valued and corporate-focused services such as Door Step Banking.

In another development, the International Financial Reporting Systems (IFRS) is successfully implemented and reports were generated in accordance with the legal requirements. The Bank's headquarter building construction project has reached 38.16 percent completion rate and is expected to be completed without substantial delay.

- **The year ahead:** We will be celebrating our ten years anniversary, which is a milestone in the history of the Bank, and the New Year is expected to bring a good deal of opportunities and challenges with the expected new reforms to improve the existing macroeconomic situations and positive economic developments in the world economy.

  Stringent compliance and anti-money laundering requirements by the regulators is expected to dominate the day-to-day activities of banks. One of our top priorities for the year will be to implement state-of-the-art technology to upgrade the Bank's core banking system and deployment of anti-money laundering solution. In this regard, the Board will ensure every regulatory and stakeholders requirement are met to the expected standard.

  Regarding the overall economic performance, the Ethiopian economy is projected to grow by at least 8 percent during 2018/19. It is an accepted fact that weak economic growth and higher borrowing costs could intensify debt and financial stability concerns, while rising unemployment could amplify political uncertainties. The capacity of the country to confront the economic slowdown thus remains critical.

  It will thus be fair to foresee stiff competitions within financial institutions to attract best businesses, requiring the practice of prudent credit risk, market risk and operational risks management. The appetite to increase the banks' capital by the central bank will surge to enable banks to absorb any possible shake or increase their loss absorption capacity and the Board is unequivocally confident to get the support of its shareholders in responding the prevailing demand.

Dear Shareholders,

With the new fiscal year, the Board of Directors, the Management and the entire staff of Zemen Bank S.C. will continue to accelerate its transformation and seize opportunities to capture more market shares through business innovation and increased efficiency. We will continue to embrace the client-centered culture that preserves long-term relationships with our customers and strong and credible corporate governance with a more visibility in selected strategic and geographical locations.

Finally, I would like to express my heartfelt gratitude to the Shareholders, the Supervisory Authority and our esteemed Customers who have helped us to achieve this solid performance. Special thanks deserve to my fellow members of the Board of Directors, the previous Board Members, the Management and employees of Zemen Bank, for their hard work and enthusiastic team spirit.

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

PERSONAL BANKING

Personal Banking

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

33.7% AVERAGE ANNUAL EARNINGS PER SHARE FOR THE PAST 5 YEARS

60.72M BIRR WITHDRAWN FROM ATMS EVERY MONTH

8,880 REGISTERED INTERNET BANKING USERS

$347M IN FOREX INFLOWS

1B LOANS TO CUSTOMERS

155.3M INTERNET BANKING TRANSACTIONS PER YEAR

15% REVENUE INCREASE FROM PREVIOUS YEAR

2.2B DEPOSITS MOBILIZED

94 BANKS NUMBER OF WORLDWIDE CORRESPONDENT BANK RELATIONS

25% LOAN INCREASE FROM PREVIOUS YEAR

20,000 EMPLOYEES USING PAYROLL SERVICES

28% DEPOSIT INCREASE FROM PREVIOUS YEAR

PRESTIGE BANKING

SHAREHOLDERS' MEETING (19 November, 2017)

Prestige Banking

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

 www.zemenbank.com

DIRECTORS' REPORT

Fiscal Year 2017/18

Zemen Bank's Board of Directors is pleased to present the 2017/18 Annual Report to its esteemed shareholders, clients, and partners. In what follows, we present an overview of our overall results during the just completed fiscal year and outline briefly our plans for the period ahead.

Financial Performance

After a long period of economic slowness, the world economic growth approached 3 percent in 2017 and expected to expand by 3.1 percent in 2018 (World Economic Outlook). As a reflection of the world economic conditions and internal political and economic climate, the Ethiopian economy grew by 7.7 percent in 2017/18 which is way below from initially forecasted double digit growth. The financial sector performance was challenged by the political and economic development in 2017/18. The value of Birr was weakening by 15 percent in October 2017 which effectively pushed the annual depreciation to more than 20 percent and the minimum saving interest rate was raised to 7 percent. In spite of the internal and external challenges, Zemen Bank has continued to perform well in most areas of activities. The Bank's lending and international activities contributed the lion share for the overall performance of the Bank. Gross revenue of the Bank reached Birr 1,136 million with profit-after-tax of Birr 271 million.

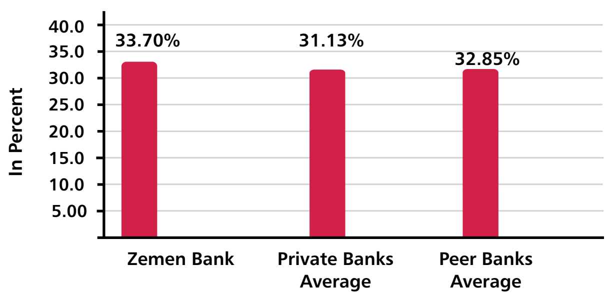
The net income outturn is equivalent to earnings per share of 28.7 percent. The Bank's profit performance continued to show a satisfactory rate of return when measured against capital and total asset of the Bank. A return on average equity has reached 18 percent while a return on average assets reached 2.4 percent. The Bank's five year EPS record shows that, Zemen's performance is slightly above peers and the industry average with 33.7 percent.

Zemen's Bank results continued to be supported by a distinctive business model that is focused on corporate clients and technologically driven banking services via multiple channels (such as ATMs, Internet Banking, POS terminals, Foreign Exchange Bureaus, and Kiosk Banking).

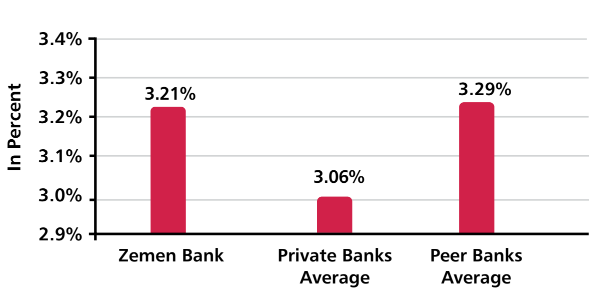
The five year average return on asset strikes above private banks average and nearly equal with the peer banks average.

Revenues: As at 30 June 2018, Zemen Bank generated a total revenue of Birr 1,136 million, a 15 percent increase from the previous fiscal year's outturn of Birr 984 million. The two largest revenue

Earning Per Share: Five-Year Average GRAPH 1



Return on Assets: Five-Year Average GRAPH 2



sources for the bank are interest income on loans and advances (Birr 712 million or 63 percent of total revenue) and fees derived mainly from trade service operations (Birr 320 million or 28 percent of total revenue). Gains from foreign exchange (FX) related activity contributed Birr 98 million or about 8.6 percent of total revenues. In a very positive development, the Bank's revenue structure is now more inclined to lending business than a few years back and less susceptible to a slowdown and fluctuation in international banking business.

Expenditure: The Bank's operational expenses was dominated by interest payments on deposits (Birr 442 million), salaries and benefits (Birr 172 million), office rent expenses (Birr 39 million) and depreciation and amortization (Birr 30 million). The Bank has also set aside a loan provision expense of Birr 27 million. The Bank's cost-to-income ratio (which is a key measure of efficiency used in the banking sector and reflects operating costs relative to operating income) has increased from 38.4 percent to 44 percent at the end of June 2018.

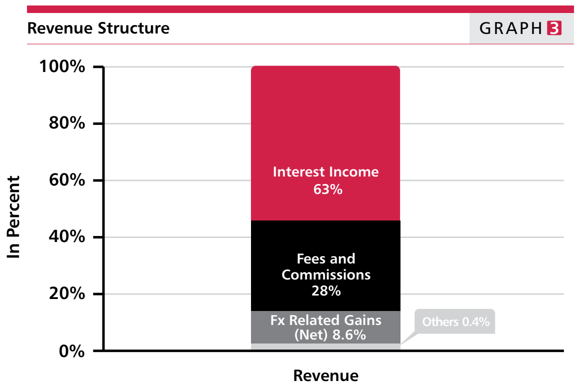
Balance Sheet: As at June 30, 2018, the Bank's total asset has reached Birr 12.4 billion, up 27% from prior year record. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits (Birr 10.2 billion) and shareholder funds (Birr 1.1 billion). The counterpart to these funds collected from customers and shareholders are four main assets: loans and advances (Birr 5.2 billion); NBE Bills (2.4 billion); deposits at local banks and NBE (Birr 2.2 billion); and foreign exchange deposits at foreign banks (Birr 1.5 billion).

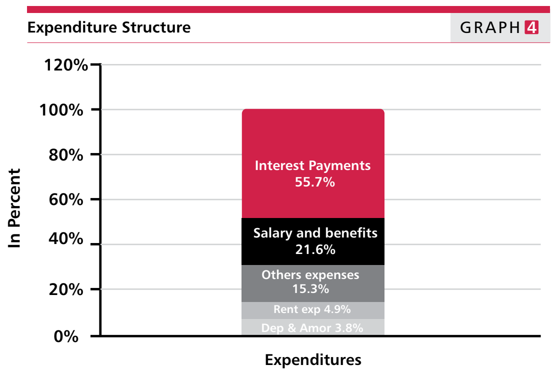
In line with our prudent liquidity management practices, the Bank's liquidity ratio (liquid assets to deposit) was well above the regulatory requirement of 15 percent throughout the year which stood at 40 percent at the end of June 2018.

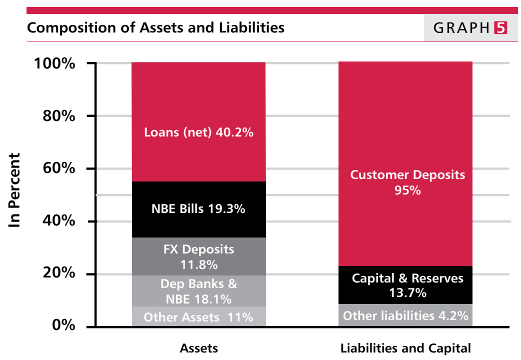
Moreover, the capital adequacy of the bank stood at 34%, which is more than four times the minimum regulatory requirement of 8 percent.

Dividend Payout Proposal

Based on the financial results of the fiscal year, a net profit of Birr 190.8 million has been transferred to retained earnings after deduction of legal reserve, board remuneration fee and other adjustments. The Board of Directors proposes the full amount of profit transferred to retained earnings to be distributed to shareholders in the form of dividend payments.







Z-Club

Z-Club offers the highest level of banking services available. A specialist Personal Banker is assigned to you to help with all your financial needs. To qualify, you should maintain a minimum monthly balance of Birr 500,000. The Z-Club account brings with it the most preferential interest rates (7.5%), free cash delivery/collection services (limit of two per month), and the privilege of using our dedicated mezzanine floor, including use of our conference rooms with free internet services, for your business needs.

Based on the year-average paid-up capital of the Bank, the proposed dividend per share has reached 20.13 percent.

Banking Operations

Zemen Bank has continued to show strong and rapid growth in the three key areas of commercial banking operations-deposits mobilization, providing loans and advances, and foreign exchange funds needed to facilitate trade related services.

Deposits:

Despite the stiff competition for resources in the banking industry, Zemen Bank managed to register an encouraging performance in terms of deposit mobilization year-on-year. The Bank boosted its deposit base by 28 percent, with total deposits mobilized reaching Birr 10.2 billion at the end of June 2018 from Birr 8 billion a year earlier. Corporate deposits continue to make up the majority (nearly two-thirds) of the deposit base. Besides, retail deposit accounts have shown strong double-digit gains in recent years implying the strong confidence the public vested on the Bank.

The composition of deposits is broadly in line with the Bank's strategic objectives: saving deposits make-up the largest share (61 percent), followed by checking deposits (29 percent) and time deposits (10 percent).

Credit:

The Bank has extended Loans and Advances to customers engaged in various business and investment activities. The Bank's lending books registered a commendable increment year-on-year. It showed a growth of 25 percent this past fiscal year, with gross loans rising from Birr 4,184.8 million to Birr 5,217.5 million.

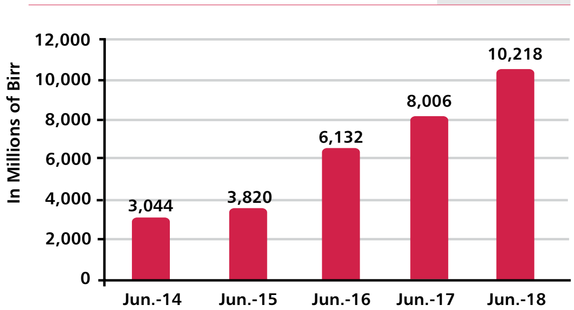
The composition of loans and advances comprises: Manufacturing (25.6%), Imports (15.2%), Exports (14.5%) and Domestic Trade and Services (11.1%) and others accounted for (33.6%) of the total outstanding loans and advances. Moreover, the Bank has been able to maintain a healthy loan portfolio as a result of its prudent loan management practice. The Bank's non-performing loan ratio has reached 3.78 percent, which is below the maximum regulatory requirement of 5 percent.

International Banking:

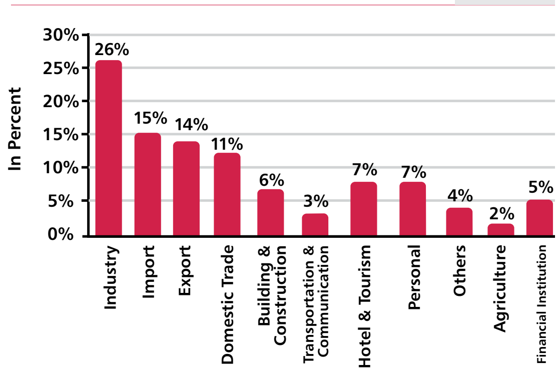
International banking services continued to be a significant source of the Bank's income. The Bank's foreign exchange inflows have shown a slight decline, from USD 360 million last year to USD 347 million this fiscal year. The average FX inflow per month has reached $29 million.

During the fiscal year, Zemen Bank continued to provide foreign currency account services to 1,338 customers, such as investors, embassies, international organizations, and the diaspora.

Deposit Trends:2014-18 GRAPH 6



Loan Book Composition: 2014-18 GRAPH 7



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

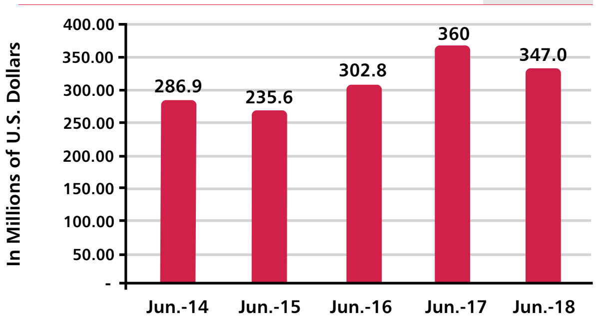
Multi-channel banking services:

Zemen Bank's services continue to be delivered via a range of banking channels, all tailored to the demands and preferences of particular client segments. Accordingly, based on their needs, our customers use service points that may include either our physical outlets or other delivery channels such as ATMs, internet banking, and mobile banking services. To provide a snapshot of our activities in these multiple service delivery channels:

- In the 2017/18 FY, our banking facilities have reached twelve in Addis Ababa and fourteen in outlying areas. The total physical service outlets providing banking services has reached 26 locations. This has led to a moderate deposit account growth of 24 percent from last year.

- **ATMs:** continue to be a highly valued banking channel for many of our customers with daily average cash transaction of Birr 1.99 million. The total yearly cash withdrawal through ATMs has reached Birr 728.6 million or an average of Birr 60.72 million which is up 5.6 % from previous year. The world's two largest card payment networks, VISA and MASTER CARD, both continue to be accessible at our ATMs, allowing a very wide pool of international cardholders to access local currency funds from the convenience of our ATMs.

Foreign Exchange Inflows: 2014-2018 GRAPH 8



- **Internet Banking:** The Internet banking facility is providing service to about 8,880 registered users, who transacted birr 155.3 million in 2017-18. A recently improved Internet Banking solution now offers a world-class package of online banking tools, with enhanced features such as simplified corporate payroll payments, optional system of multiple persons to initiate/authorize transactions, and an ability to transfer funds to accountholders of other banks.

- **Mobile Banking:** Zemen Bank offers phone-based services that allow users to access their bank account over their mobile phones. Our SMS Banking system allows access via text messages (SMS Banking—available at *844#) while the interactive voice recording (IVR) allows information retrieval via voice based prompts at a dedicated phone line (IVR Banking—available at 8700). These facilities allow customers to check balances, review transaction activity, and make fund transfers over the phone.

- **Doorstep Banking:** Zemen Bank doorstep banking services are helping numerous local and foreign companies to improve their cash and treasury management thanks to our convenient cash delivery and pick-up services. Close to 2,605 doorstep banking related trips involving transactions totaling Birr 1.1 billion have been completed as part of our dedicated service to large corporate businesses with very high cash turnover.

Debit Card

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

- **Corporate Payroll Services:** Zemen Bank has been providing payroll service for about 20,000 employees on a monthly basis, with beneficiaries ranging from field workers at several large commercial farms to the staffs of embassies, international organizations and investors. A total of more than Birr 330.06 million (up 23 percent from last year) has been paid out as part of our corporate payroll services during the course of the year.

Human Resources and Administration:

To fully support the rapidly growing operational activities, the Bank continues to upgrade and strengthen its staff capabilities. During the fiscal year, a continued focus placed on recruiting the most talented and experienced professionals. The Bank's staff headcount reached at 724 as at June 30, 2018. To successfully attain Human Capital Strategy of the Bank, training of staff continues to be accorded special attention. Accordingly, 706 staff received training in a range of core technical areas. The Bank has given short term technical and Leadership trainings locally, abroad and in-house. Likewise, the bank sponsor long-term education and various certification-programs. Management development Program (MDP) for successors of Managerial position and Young Graduate Training Program (YGTP) for fresh graduates who have joined the Bank at entry level has been successfully implemented. Personal Development and English Language Program has also been given for professional staff at all level.

Risk Management:

The Risk Department continues to lead the Bank's risk identification, monitoring, and mitigation, including coverage of risks related to credit, liquidity, markets, foreign exchange, operations, and strategy. Compliance and money laundering risks were given utmost priority and the process of automating the compliance and anti-money laundering process are well underway to meet the ever changing of the nature of the business and protect the bank from non-compliance and other related risks. Credit risks continue to be given close attention, with regular analysis done in this area via case-by case loan file reviews, a credit scoring system to evaluate borrower risks, and the use of Value-at-Risk models to forecast required provisioning levels. The task of regularly identifying and mitigating risks is further supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Committee and Loan Review Committee.

Outlook for the year ahead

The Bank will continue to focus on long-term stance of its own mission, strategy, and operations in the context of the rapidly changing business, economic, and regulatory environment. In the year ahead, the following major tasks are envisaged:

- **International Financial Reporting Standard (IFRS):** the new accounting reporting requirement requires to report financial statements in accordance with IFRS 9 principles. Accordingly, the Bank will comply and report its financials for the year 2018 /19 in accordance with the legal requirement.

- **Fully Cascade Balanced Score Card / BSC /:** Zemen bank has made the new strategy plan operational in 2015/16. Hence, due to various technicality reasons, implementation of BSC delayed hitherto. Currently preparations are well underway to cascade the Banks corporate strategy at grass root level. Alongside, the Bank shall launches BSC as bank wide performance management tool in the coming fiscal year. The bank's strategy shall also be revised in order to comply with the changing environment.

- **Reinforce Resource Mobilization:** The Bank's recent performance in mobilizing deposits has been encouraging and will continue as top priority to reduce concentration risk in the new year. Equally, mobilizing foreign exchange through different channels and incentives will be given priority to address customer demands.

- **Additional Banking Centers:** the Bank will continue to expand its branch outlets during 2018/19. Twenty-two additional banking facilities in key business districts will be added on the existing facilities both in Addis Ababa (17) and outlying areas (5). Each of these banking centers will continue our past practice of delivering corporate-focused banking services via a menu of alternative banking channels and with high standards of customer service.

- **Upgrading Core Banking Solution and Implementing Anti-Money Laundering Solutions (AML):** The current core banking solution has been in the service for the last 8 years. The Bank has allocated a budget of more than 100 Million birr to upgrade the Bank's core banking, deploying AML solutions, upgrading delivery channels and infrastructure. This is expected to enhance the service level of the Bank, fully address compliance and AML issues and expand service delivery channels to meet the ever increasing demand of customers.

- **Certification of Payment Card Industry Data Security Standard (PCI DSS) and Payment Card Industry Personal Identification Number (PCI PIN):** One of the key focus areas for the new year is to complete the PCI DSS and PCI PIN certification which are key for the deployment of VISA, MasterCard and other card scheme networks through our ATMs and POS machines.

- **Deployment of Point of Sale (POS) Terminals:** In the new fiscal year, POS service is expected to get operational at various retail destinations. The technical work in vendor selection is completed and procurement of POS machines is under process.

- **Capital Increase:** TThe Bank will strive continuously to increase its capital base to address anticipated regulatory requirement and business needs. Capitalizing the Bank would leverage the Bank with greater flexibility in its lending and foreign exchange operations as well as increase its shock absorption capacity. Therefore, the Bank will work to achieve a 2 Billion Birr capital by end of 2020.

- **Headquarter Building:** construction of the Bank's headquarters building (3B+G+32) has reached 38.16 percent completion at the end of June 2018. The structural work is expected to be completed by the end of August 2018 and the soft part of the building will be done in 2018/19 and the building is expected to be completed as early as 2020.

In conclusion, Zemen Bank will continue exert efforts in FY 2018/19 to achieve improved performance in the area of deposit mobilization, credit and FX inflow. The Bank continues to embrace the client-centered culture that preserves long-term relationships with our customers. Strong management and corporate governance also continues to be key pillars of Zemen Bank.

CUSTOMER SNAPSHOTS

Ethiopia's biggest flower exporter

ZTE

Turkish Airlines

Unilever

Department for International Development

Nestle Waters Ethiopia

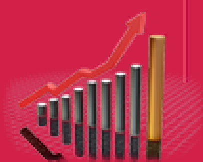
International Community School

NOAH Real Estate PLC.

The world's biggest brand

Mortage Loans

Corporate Loans



Personal Loans

LOANS

www.zemenbank.com

CUSTOMER SNAPSHOTS

Verde Beef Processing PLC	Ethiopia's leading mobile phone assembler
Ethiopia's largest wine producer	International Air Transport Association
HEINEKEN	Hilina Enriched Foods PLC
Corbetti Geothermal	A world-class airline
Habesha Brewery	Lufthansa

Mortgage Loans

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

Corporate Loans

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

Personal Loans

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

"For top performance off-the-field... my choice

- Athlete

DEPOSITS | LOANS | FOREX | CORPORATE BANKING | ATMS

DoorStep Banking

Check, CPO, Cash collection and delivery services

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

Earn Interest Every day...

Deposit your money at Zemen Bank and earn interest every day!

Why wait a full month to earn interest on your deposits when you can earn additional income every day? Zemen Bank calculates interest on your deposits daily, allowing you to earn more for all the things you want to do with your money.

So make a decision today and enjoy Zemen Bank's other distinctive services, including 24 hour ATM access, Phone Banking, Internet Banking, Debit Cards and more!

MODERN BANKING SERVICES

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

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

 www.zemenbank.com

AUDITORS' REPORT

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

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

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

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

 www.zemenbank.com

ZEMEN BANK S.C.

DIRECTORS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE

FOR THE YEAR ENDED 30 JUNE 2018

Directors (As of June 30, 2018)

Prof. Abebe Dinku	Board Chairman	(Appointed Feb 2018)
Dr. Theodros Atlabachew	Board Deputy Chairman	(Appointed Feb 2018)
Prof. Emana Getu	Non-Executive Director	(Appointed Feb 2018)
Wogayehu W/Yesus	Non-Executive Director	(Appointed Feb 2018)
Mieraf Shewaye	Non-Executive Director	(Appointed Feb 2018)
AddisAlem Kedir	Non-Executive Director	(Appointed Feb 2018)
Amare Habe	Non-Executive Director	(Appointed Feb 2018)
Mikre Ayalew	Non-Executive Director	(Appointed Feb 2018)
Bezuwork Mamo	Non-Executive Director	(Appointed Feb 2018)

Executive management (As of June 30, 2018)

Dereje Zebene	President/CEO	(Appointed Apr 2018)
Solomon Mamo	V/P - Operations	(Appointed Aug 2016)
Meseret Wondim	V/P - Corporate Resources Management	(Appointed Aug 2016)
Firehiwot Birke	V/P - Customer Service	(Appointed Aug 2016)
Amha Tadesse	V/P - Technology	(Appointed Nov 2017)
Bayush Berhanu	Acting Director - Multichannel Banking Department	(Appointed Mar 2018)
Adugna Mekonnen	Director - Risk & Compliance Management Department	(Appointed Sep 2016)
Nebyou Tekola	Director - Personal & Business Banking Department	(Appointed Mar 2018)
Kassahun Ayalew	Director - Corporate & Institutional Banking Department	(Appointed Aug 2016)
Gadissa Mamo	Director - Finanace Department	(Appointed Dec 2013)
HaileYesus Mezgebu	Director - IT Projects Department	(Appointed Apr 2016)
Tesfaye Salilew	Director - E- Channel Management Department	(Appointed Aug 2016)
Phylipos Mitiku	Director -Core Banking & Software Dev't Dep't	(Appointed Aug 2016)
Dereje Mihretu	Director - Credit Department	(Appointed Jul 2017)
Biniyam Abreham	Director - International Banking Dep't	(Appointed Aug 2016)
Tewahido Taffese	Director - Knowledge & Innovation Department	(Appointed Mar 2017)
Taye Nigatu	Director - Facility management Dep't	(Appointed Dec 2013)
Elias Kinfegebriel	Director - Human Resource Department	(Appointed Dec 2013)
Adamseged Belay	Legal Counsellor	(Appointed Nov 2012)
Yohannes Getachew	Director - Internal Audit Department	(Appointed Aug 2016)
Kassahun Merawi	Director - Engineering Department	(Appointed Apr 2017)

Independent auditor

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

Corporate office

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

ZEMEN BANK S.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2018

The directors submit their report together with the financial statements for the period ended 30 June 2018, to the members of Zemen Bank S.C. ("ZB or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation

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

Principal activities

The Bank's principal activity is commercial banking.

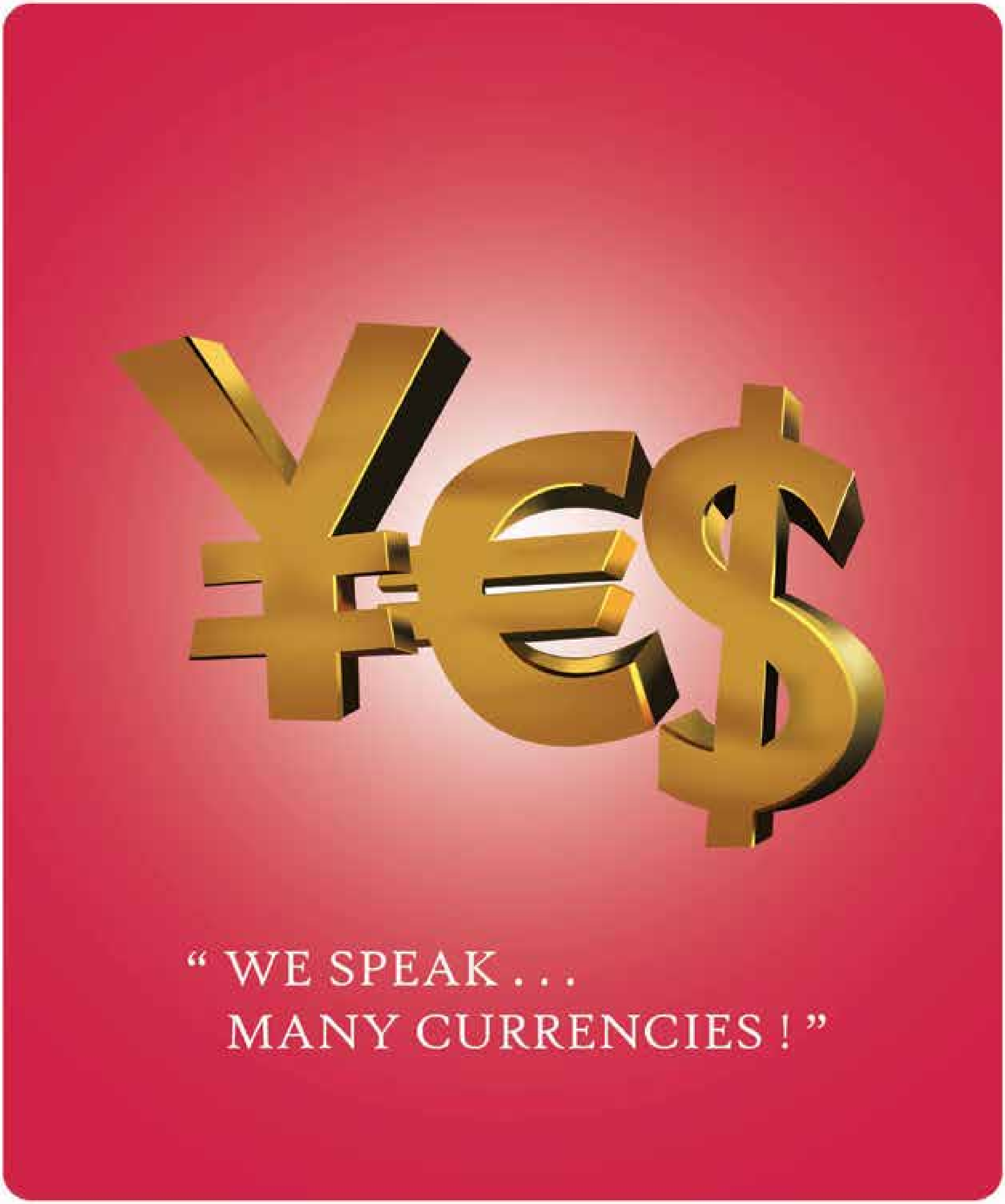
Results and dividends

The Bank's results for the year ended 25 June 2018 are set out on page 30. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2018 Birr'000	30 June 2017 Birr'000
Interest income	712,405	475,913
Profit / (loss) before tax	342,319	368,432
Tax (charge) / credit	(71,298)	(102,416)
Profit / (loss) for the year	271,021	266,016
Other comprehensive income / (loss) net of taxes	(713)	13
Total comprehensive income / (loss) for the year	**270,309**	**266,029**

Directors

The directors who held office during the year and to the date of this report are set out on page 24


" WE SPEAK . . .
MANY CURRENCIES ! "

ZEMEN BANK SHARE COMPANY STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with the Financial Reporting Proclamation No. 847/2014 the Accounting and Auditing Board of Ethiopia (AABE) may direct the Bank to prepare financial statements in accordance with International Financial Reporting Standards, whether their designation changes or they are replaced, from time to time.

The Directors are responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standard and in the manner required by the Accounting and Auditing Board of of Ethiopia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank is required keep such records are necessary to:

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

b) explain its transactions and financial position; and

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

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

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

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

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

Prof. Abebe Dinku Chairman of the Board of Directors	Dereje Zebene President /CEO

30 October 2018

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Addis Ababa, Ethiopia
Zemen BANK
No 01
P.O.Box 28119 code 1000
Zemen Bank S. C.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of ZEMEN BANK SHARE COMPANY which comprise the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, Statment of changes in equity and statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory information.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ZEMEN BANK SHARE COMPANY as at 30 June 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRS) and related interpretations as issued by International Accounting Standards Board(IASB). As required by the commercial code of Ethiopia, based on our audit we report as follows:

i) Pursuant to Article 375(1) of the Commercial Code of Ethiopia, 1960 and based on our reviews of the Board of Directors' report, we have not noted any matter that we may wish to bring to your attention.

ii) Pursuant to article 375 (2) of the commercial code of Ethiopia we recommend the financial statements be approved.

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters. We have determined the matters described below as the key audit matters to be communicated in our report.

The Bank has changed its Financial Reporting Framework from local reporting practice to International Financial Reporting Standard (IFRS) which required the bank to prepare its first IFRS compliant financial statements as at 30 June 2018 and the conversion process required preparation of opening Statement of Financial Position as at 01 July 2016 and Comparative Financial statements for the year ended 30 June 2017. Due to newness of the IFRS to the bank and country as whole, it had challenges in the area of business process, knowledge and training, market information and technology requirements which made the conversion process and preparation of the first IFRS based Financial Statement tiresome. As result, we have had series of discussions with the concerned unit of the bank on the matter; reviewed relevant documents and of course the verification work took us much time.

How our Audit Addressed the key Audit matter

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

The bank has engaged international consultancy firm (PricewaterhouseCoopers, Pwc) to enable it to properly convert the accounts to IFRS requirements and concerned staffs were trained both locally and aboard to ensure sustainability of IFRS compliance. The management of the bank further explained to us that it used various alternative ways for gathering various market information and used unobservable inputs in cases where market information is not available which is as per requirement of IFRS and it is also considering information system updates and upgrades to enable it to comply to data requirements of IFRS.

Responsibilities Of Management And Those Charged With Governance For The Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the company and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

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

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

Auditors Responsibility for the Audit of the financial Statements

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

Degefa and Tewodros Audit Services
Partnership Chartered Certified Accountants
P.O. Box 8118, Addis Ababa, Ethiopia

23 OCTOBER 2018

ZEMEN BANK S.C.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2018

In Ethiopian Birr

	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000
Interest income	5	712,405	475,913
Interest expense	6	441,732	294,658
Net interest income		**270,673**	**181,255**
Fee and commission income	7	320,223	337,351
Fee and commission expense	7	-	-
Net fees and commission income		**320,223**	**337,351**
Other operating income	8	103,089	170,570
Total operating income		**693,985**	**689,176**
Loan impairment charge	9	27,044	48,593
Impairment losses on other assets	10	609	17,504
Net operating income		**666,332**	**623,079**
Personnel expenses	11	171,556	132,973
Amortisation of intangible assets	18	9,553	8,087
Depreciation and impairment of property, plant and equipment	19	20,532	15,831
Other operating expenses	12	122,372	97,757
Profit before tax		**342,319**	**368,432**
Income tax expense	13	71,298	102,416
Profit after tax		**271,021**	**266,016**
Other comprehensive income (OCI) net of income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations		(1,018)	19
Deferred tax (liability)/asset on remeasurement gain or loss	13	305	(6)
		(713)	13
Total comprehensive income for the period	**25**	**270,309**	**266,029**
Basic and diluted earnings per share (birr)		**286**	**386**

The accompanying notes are an integral part of the financial statements.

ZEMEN BANK S.C.

STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 30 JUNE 2018

In Ethiopian Birr

	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
ASSETS				
Cash and cash equivalents	14	4,054,085	3,178,808	2,208,611
Loans and advances to customers	15	4,995,010	3,989,364	3,275,969
Asset Held for sale		3,134	48	-
Investment securities:				
- Available for sale	16	12,421	11,789	11,789
- Loans and receivables	16	2,421,411	2,035,331	1,656,441
Other assets	17	368,714	277,396	160,934
Intangible assets	18	53,665	49,300	38,501
Property, plant and equipment	19	530,466	214,481	97,879
Leasehold land		-	-	-
Deferred tax assets	13	-	-	-
Total assets		**12,438,906**	**9,756,518**	**7,450,126**
LIABILITIES				
Deposits due to other banks	20	23,800	4,701	2,326
Deposits from customers	21	10,217,516	8,006,045	6,131,515
Current tax liabilities	13	84,042	105,259	72,004
Other liabilities	22	400,748	277,137	197,619
Finance lease obligation		-	-	-
Deferred tax liabilities	13	10,829	10,380	8,492
Retirement benefit obligations	23	5,188	3,025	2,196
Total liabilities		**10,742,123**	**8,406,546**	**6,414,153**
EQUITY				
Share capital	24	1,125,000	850,000	650,000
Share premium		425	425	425
Retained earnings	26	190,765	194,857	151,278
Legal reserve	27	334,169	266,413	200,270
Regulatory risk reserve		47,123	38,264	34,001
Other reserve		(699)	13	-
Total equity		**1,696,783**	**1,349,972**	**1,035,974**
Total equity and liabilities		**12,438,906**	**9,756,518**	**7,450,126**

The notes on pages 34 to 109 are an integral part of these financial statements.

The financial statements on pages 34 to 109 were approved and authorised for issue by the Board of Directors on 30th October 2018 and were signed on its behalf by:

Abebe Dinku

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Prof.Abebe Dinku
Chairman of Board of Directors

Dereje Zebene
President / CEO

ZEMEN BANK S.C.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2018

In Ethiopian Birr

	Notes	Share capital Birr'000	Share Premium Birr'000	Retained earnings Birr'000	Regulatory risk reserve Birr'000	Other reserve Birr'000	Legal reserve Birr'000	Total Birr'000
As at 1 July 2016		**650,000**	**425**	**151,278**	**34,001**	**-**	**200,270**	**1,035,974**
Profit for the period	26	-		266,016			-	266,016
Other comprehensive income:								-
Re-measurement gains on defined benefit plans (net of tax)	13					13		13
Dividends paid				(152,031)				(152,031)
Proceeds from issue of shares		200,000						200,000
Transfer to legal reserve	27			(66,144)			66,144	-
Transfer to regulatory risk reserve	28			(4,263)	4,263			-
Total comprehensive Income for the period		200,000	-	43,579	4,263	13	66,144	313,998
As at 30 June 2017		**850,000**	**425**	**194,857**	**38,264**	**13**	**266,413**	**1,349,972**
As at 1 July 2017		**850,000**	**425**	**194,857**	**38,264**	**13**	**266,413**	**1,349,972**
Profit for the period	26			271,021				271,021
Other comprehensive income:								
Re-measurement gains on defined benefit plans (net of tax)	13					(713)		(713)
Dividends paid				(197,727)				(197,727)
Proceeds from issue of shares		275,000						275,000
Transfer to legal reserve	27			(67,755)		-	67,755	-
Transfer to regulatory risk reserve	28			(8,859)	8,859			-
Directors share on profits				(771)				(771)
Total comprehensive income for the period		275,000	-	(4,091)	8,859	(713)	67,755	346,811
As at 30 June 2018		**1,125,000**	**425**	**190,765**	**47,123**	**(699)**	**334,169**	**1,696,783**

The accompanying notes are an integral part of the financial statements.

ZEMEN BANK S.C.

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2018

In Ethiopian Birr

	Nots	30 June 2018 Birr'000	30 June 2017 Birr'000
Cash flows from Operating Activities			
Cash generated from operations	29	1,630,074	1,519,427
Defined benefits paid		-	-
Income tax paid		(91,760)	(67,279)
Net cash(outflow) / inflow from operating activities		**1,538,314**	**1,452,147**
Cash flows from investing activities			
Purchase of investment securities	16	(386,080)	(378,890)
Purchase of intangible assets	18	(13,918)	(19,019)
Purchase of property, plant and equipment	19	(336,834)	(132,522)
Acquired properties(net)		(3,070)	(48)
Purchase of additional Equity Investments		(632)	-
Proceeds from sale of property, plant and equipment	29	223	559
Net cash (outflow) / inflow from investing activities		**(740,311)**	**(529,920)**
Cash flow from financing activities			
Proceeds from issues of shares		275,000	200,000
Dividend paid		(197,727)	(152,031)
Net cash (outflow) inflow from financing activities		**77,273**	**47,969**
Net increase / (decrease) in cash and cash equivalents		**875,276**	**970,197**
Cash and cash equivalents at the beginning of the year	14	3,178,808	2,208,611
Foreign exchange (losses) / gains on cash & cash equivalents		-	-
Cash and cash equivalents at the end of the year	14	4,054,084	3,178,808

The accompanying notes are an integral part of the financial statements.

1. General information

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

Its Business address is:

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

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

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The financial statements for the period ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

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

The financial statements for the period ended 30 June 2018 are the first the Bank has prepared in accordance with IFRS. Refer to note 36 for information on how the Bank adopted IFRS.

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

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

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

2.2.1 Going concern

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

2.2.2 Changes in accounting policies and disclosures

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 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 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss.

The basis of classification depends on the Bank's business model and the contractual cash flow characteristics of financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018 and early adoption is permitted. The Bank is yet to assess IFRS 9's full impact.

IFRS 15 - Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank is yet to assess the expected impact on this standard.

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.

Amendments to IAS 7- Disclosure Initiative

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted. The amendment will be effective for annual periods beginning on or after 1 January 2017.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

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

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation or;

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

2.3 Foreign currency translation

a) *Functional and presentation currency*

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

b) Transactions and balances

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

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

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

2.4 Recognition of income and expenses

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

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

2.4.1 Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available – for – sale interest income or expense is recorded using the contractual rates.

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.2 Fees and commission

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

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

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

2.4.3 Dividend income

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

2.4.4 Foreign exchange revaluation gains or losses

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

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

2.5 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.5.1 Financial assets

Initial recognition and measurement

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

Subsequent measurement

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

a) Loans and receivables

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

The Bank's loans and receivables comprise of Agriculture loans, Industry loans, Building and construction loans, Domestic Trade and Service loans, Export Loans, Import loans, Transportation loans, Hotel and Tourism loans, Personal loans, Financial Institution loans, Pre-shipment loans and Staff loans.

***b) Available-for-sale (AFS) financial asset**s*

AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held–for–trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to income statement in impairment loss on financial investment. Interest earned whilst holding AFS financial investments is reported as interest and similar income using the EIR method. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

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

Day 1' profit or loss

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

Reclassification of financial assets

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

For a financial asset reclassified out of the 'Available–for–sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to income statement.

The Bank may reclassify a non–derivative trading asset out of the 'held–for–trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Bank's statement of financial position) when:

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

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

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

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

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

Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'loan impairment charge'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past–due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale (AFS) financial instruments

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in profit or loss. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to profit or loss and is recognised as part of the impairment loss. The amount of the loss recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss but accounted for directly in equity.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral valuation

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

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

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.

2.5.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities.

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

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

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

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

Derecognition of financial liabilities

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

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

2.5.3 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 legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Bank or the counterparty.

2.6 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents include cash and restricted balances with National Bank of Ethiopia.

2.7 Property, plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

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

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

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

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

2.8 Intangible assets

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

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

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

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

2.9 Investment property

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

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

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at cost and disclose fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

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

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

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

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

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

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

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

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

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

2.11 Impairment of non-financial assets

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

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

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

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

2.12 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.

2.13 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.7.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.7.2
- Financial instruments (including those carried at amortised cost) Note 4.7.2

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Bank's management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets. For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above

2.14 Employee benefits

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

(a) Defined contribution plan

The Bank operates two defined contribution plans;

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

ii) provident fund contribution, funding under this scheme is 7% and 15% by employees and the Bank respectively;

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

(b) Defined benefit plan

The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high- quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past-service costs are recognised immediately in income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(c) Termination benefits

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

2.15 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.

2.16 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.

2.17 Earnings per share

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

2.18 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.

2.19 Income taxation

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

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

3 Significant accounting judgements, estimates and assumptions

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

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

- Capital management Note 4.6
- Financial risk management and policies Note 4
- Sensitivity analyses disclosures Note 4.5.2

3.1 Judgements

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

Operating lease commitments - Bank as lessee

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

3.2 Estimates and assumptions

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

Impairment losses on loans and receivables

The Bank reviews its loan portfolios for impairment on an on-going basis. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. For individually significant financial assets that has been deemed to be impaired, management has deemed that cashflow from collateral obtained would arise within 24 months where the financial asset is collaterised.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management 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 management 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.

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 for further disclosures.

Defined benefit plans

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

Depreciation and carrying value of property, plant and equipment

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

Impairment of non-financial assets

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

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

4 Financial risk management

4.1 Introduction

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

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

4.1.1 Risk management structure

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

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

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

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

4.1.2 Risk measurement and reporting systems

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

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

4.1.3 Risk mitigation

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

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

4.2 Financial instruments by category

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

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

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

	Notes	Available-For-Sale	Loans and receivables	Total
30 June 2018		**Birr'000**	**Birr'000**	**Birr'000**
Cash and cash equivalents	14		4,054,085	4,054,085
Loans and advances to customers	15		4,995,010	4,995,010
Asset Held for sale			3,134	3,134
Investment securities:				-
- Available for sale	16	12,421	-	12,421
- Loans and receivables	16		2,421,411	2,421,411
Other assets	17		368,714	368,714
Total financial assets		**12,421.00**	**11,842,354**	**11,854,774**
30 June 2017				
Cash and cash equivalents	14		3,178,808	3,178,808
Loans and advances to customers	15		3,989,364	3,989,364
Asset Held for sale			48	48
Investment securities:				-
- Available for sale	16	11,789		11,789
- Loans and receivables	16		2,035,331	2,035,331
Other assets	17		277,396	277,396
Total financial assets		**11,789.00**	**9,480,947**	**9,492,736**
1 July 2016				
Cash and cash equivalents	14	-	2,208,611	2,208,611
Loans and advances to customers	15	-	3,275,969	3,275,969
Investment securities:				-
- Available for sale	16	11,789	-	11,789
- Loans and receivables	16	-	1,656,441	1,656,441
Other assets	17	-	160,934	160,934
Total financial assets		**11,789**	**7,301,955**	**7,313,744**

4.3 Credit risk

Credit risk is the probability that a counterparty of the Bank will not meet its obligations in accordance with agreed terms and conditions which may lead to financial loss. The Bank is exposed to credit risk due to activities such as loans and advances, loan commitments arising from lending activities, credit enhancement provided such as financial guarantees and letter of credit.

The Bank adopts a conservative approach to credit risk. Where appropriate, the Bank intervenes in the economy and provides guarantees in the financial system to prevent systemic risk.

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 Impairment assessment

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

(a) Individual assessment

The Bank reviewed and revised existing impairment triggers for each loan asset portfolio to ensure that a trigger identifies a loss event as early as possible, which would result in the earliest possible recognition of losses within the IFRS framework. The Bank then estimated the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount.

(b) Collective assessment

Loans and receivables that are not specifically impaired are assessed under collective impairment. For the purpose of collective impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to contractual terms.

The Bank generally bases its analyses on historical experience. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

4.3.3 Credit related commitments risks

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

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

(a) Types of credit exposure

The Bank's maximum exposure to credit risk at 30 June 2018, 30 June 2017 and 30 June 2016 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Cash and cash equivalents	4,054,085	3,178,808	2,208,611
Loans and advances to customers	4,995,010	3,989,364	3,275,969
Investment securities:			
- Available for sale	12,421	11,789	11,789
- Loans and receivables	2,421,411	2,035,331	1,656,441
Other assets	358,918	270,431	156,893
	11,841,845	9,485,723	7,309,703
Credit risk exposures relating to off balance sheets are as follows:			
Loan commitments	1,437,820	588,057	535,748
Letter of credit and other credit related obligations	174,021	211,292	454,468
	1,611,840	799,349	990,216

(b) Assets obtained by taking possession of collateral

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Motor vehicle	2,717	48	-
Building	401		
	3,118	48	-

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

(c) Loans and receivables at amortised cost

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Agriculture	87,957	234,016	70,526
Industry	1,338,064	655,798	747,815
Building and construction	308,468	369,054	312,418
Domestic Trade and Service	579,802	495,461	386,835
Export	757,404	736,252	545,526
Import	794,495	663,817	709,810
Transportation	160,930	237,059	262,788
Hotel and Tourism	362,812	194,745	171,028
Personal Loans - Customers	362,750	138,566	126,126
Emergency Staff Loans	209,284	126,762	89,620
Personal Loans - Staffs	-	-	-
Financial Institutions	255,557	333,303	-
Domestic Trade	-	-	-
Advance on Import Bills	-	-	-
Pre-shipments	-	-	-
Loans and Advances under Litigation	-	-	-
Mines, power, and water resource	-	-	353
	5,217,523	**4,184,833**	**3,422,845**

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

	30 June 2018 Birr'000	3 0 June 2017 Birr'000	1 July 2016 Birr'000
Pass	4,718,289	3,232,642	3,095,275
Special mention	213,180	128,931	121,892
Substandard	39,292	131,638	37,336
Doubtful	7,705	82,233	10,958
Loss	239,057	609,388	157,385
	5,217,523	**4,184,833**	**3,422,845**

The above table represents a worse case scenario of credit risk exposure of the Bank as at the reporting dates without taking account of any collateral held or other credit enhancements attached. The exposures are based on net carrying amounts as reported in the statement of financial position.

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

4.3.5 Credit quality analysis

Credit quality of loans and advances to customers

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

30 June 2017	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	133,058	-	100,958	234,016
Industry	635,109	-	20,689	655,798
Building and construction	337,856	7,407	23,791	369,054
Domestic Trade and Service	-	-	495,461	495,461
Export	584,215	58,356	93,681	736,252
Import	585,235	13,574	65,007	663,817
Transportation	197,225	22,898	16,936	237,059
Hotel and Tourism	161,313	26,696	6,736	194,745
Personal Loans - Customers	138,566	-	-	138,566
Emergency Staff Loans	126,762	-	-	126,762
Personal Loans - Staffs	-	-	-	-
Financial Institutions	333,303			333,303
Domestic Trade	-			-
Advance on Import Bills	-			-
Pre-shipments	-			-
Loans and Advances under Litigation	-			-
Mines, power,and water resource	-			-
Gross	**3,232,642**	**128,931**	**823,259**	**4,184,833**
Less: Impairment allowance (note 15)	(15,949)	(72,947)	(106,573)	(195,469)
Net	**3,216,993**	**55,984**	**716,686**	**3,989,364**

1 June 2016	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	67,637	2,889	0	70,526
Industry	706,491	22,217	19,108	747,815
Building and construction	281,380	21,403	9,635	312,418
Domestic Trade and Service	363,395	22,071	1,369	386,835
Export	452,350	1,977	91,199	545,526
Import	623,995	23,289	62,526	709,810
Transportation	241,898	14,099	6,791	262,788
Hotel and Tourism	152,971	3,272	14,785	171,028
Personal Loans - Customers	115,537	10,322	267	126,126
Emergency Staff Loans	89,620	-	-	89,620
Personal Loans - Staffs	-	-	-	-
Financial Institutions -	-	-	-	-
Domestic Trade	-	-	-	-
Advance on Import Bills	-	-	-	-
Pre-shipments	-	-	-	-
Loans and Advances under Litigation	-	-	-	-
Mines,power,and water resource		353	-	353
Gross	**3,095,274**	**121,892**	**205,679**	**3,422,845**
Less: Impairment allowance (note15)	(25,391)	(25,463)	(96,022)	(146,876)
Net	**3,069,883**	**96,429**	**109,657**	**3,275,969**

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

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July2016 Birr'000
Neither past due nor impaired	4,718,289	3,239,672	3,095,274
Collective impairment	(82,630)	(15,949)	(25,391)
	4,635,659	3,223,724	3,069,883

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Past due up to 30-39 days	108,722	27,927	26,396
Past due up to 40 - 49 days	25,582	12,674	11,980
Past due by 50 - 59 days	8,527	31,794	30,062
Past due by 60 - 69 days	10,659	40,781	38,557
Past due by 70 - 79 days	31,977	6,550	6,194
Past due by 80 - 89 days	27,713	9,206	8,703
	213,180	**128,931**	**121,892**

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

(iii) Loans and receivables - individually impaired loans

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Substandard	39,261	131,638	37,336
Doubtful	7,699	82,233	10,958
Lost	238,871	609,388	157,385
	285,831	**823,259**	**205,679**

(iv) Allowance for impairment

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Specific impairment	119,227	106,573	96,022
Collective impairment	103,286	88,896	50,854
Total allowance for impairment	**222,513**	**195,469**	**146,876**

4.3.6 Statement of Prudential adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

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

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

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

- Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve".
- Prudential provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account

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

During the period ended 30 June 2018, their is no transfered amont to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IAS 39 as at year end.

	30 June 2018 Birr'000	30 June 2017 Birr'000
Total impairment based on IFRS	222,513	195,469
Total impairment based on NBE Directives	203,129	189,517

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Write backed Suspended interest net of tax	47,123	38,264	34,001

4.3.7 Credit concentrations

The Bank monitors concentrations of credit risk by social sector. An analysis of concentrations of credit risk at 30 June 2018, 30 June 2017 and 30 June 2016. The Bank concentrates all its financial assets in Ethiopia.

30 June 2018	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				4,054,085
Loans and receivables				-
Investment securities:	1,338,064	308,468	579,802	2,991,189
- Available for sale				12,421
- Loans and receivables				2,421,411
Other assets				368,714
Lean commitment				1,437
	1,338,064	**308,468**	**579,802**	**9,849,257**

30 June 2017	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				3,178,808
Loans and receivables	655,798	369,054	495,461	2,664,520
Investment securities:				
- Available for sale				11,789
- Loans and receivables				2,035,331
Other assets				277,396
	655,798	**369,054**	**495,461**	**8,167,844**

1 July 2016	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				2,208,611
Loans and receivables	747,815	312,418	386,835	1,975,777
Investment securities:				
- Available for sale				11,789
- Loans and receivables				1,656,441
Other assets				160,934
	747,815	**312,418**	**386,835**	**6,013,552**

4.3.8 Nature of security in respect of loans and receivables.

30 June 2018	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	23,526	45,000	65,880	1,400	-
Building and Construction	571,420	73,600	129,909	9,116	-
Consumer	914,998	20,042	91,864	113,995	10,901
Domestic Trade Services	1,194,633	11,075	243,688	22,453	-
Export	422,381	126,524	864,488	850	448,486
Hotel and tourism	1,045,220	375	27,940	2,862	3,125
Import	1,185,277	15,000	47,584	8,889	127,621
Industry	899,621	1,023,081	254,533	2,694	50,794
Financial Institutions	-	562,040	-	-	-
Staff loans	187,632	-	-	50,872	-
Transport and Communication	72,676	-	545,828	8,170	2,310
	6,517,384	**1,876,736**	**2,271,714**	**221,301**	**643,237**
30 June 2017					
Agriculture	34,748	120,259	11,210	56,070	16,390
Building and Construction	739,269	16,828	29,088	167,231	8,962
Consumer	530,788	13,211	-	132,479	2,620
Domestic Trade Services	870,243	1,275	6,439	250,631	-
Emergency staff loans	-	-	-	-	-
Export	913,107	57,397	65,936	114,217	16,634
Hotel and tourism	891,424	-	-	28,786	3,500
Import	1,004,236	238,266	-	91,275	126,685
Industry	492,482	56,000	-	34,414	456,570
Micro finance	-	-	-	-	335,158
Personal Staff Loans	2,626	-	-	889	-
Transport and Communication	100,708	-	18,577	668,786	-
	5,579,633	**503,235**	**131,250**	**1,544,778**	**966,518**
1 July 2016					
Agriculture	18,757	45,000	11,210	43,157	2,003
Building and Construction	774,452	-	33,105	271,155	180,808
Consumer	405,943	6,909	-	116,375	2,664
Domestic Trade Services	903,355	15,075	7,688	162,083	5,632
Export	821,843	7,087	131,873	22,170	236,277
Hotel and tourism	722,020	-	-	33,727	12,663
Import	766,653	180,055	-	95,534	532,781
Industry	775,572	279,623	65,630	11,846	50,549
Mining	-	-	5,496	-	-
Staff loans	-	-	-	-	-
Transport and Communication	89,359	-	32,087	594,667	-
	5,277,955	**533,749**	**287,090**	**1,350,714**	**1,023,377**

4.3.9 Collateral held and their financial effect

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

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

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

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

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

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 and Liability Disbursement Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that the Bank meet its maturing obligations.

4.4.1 Management of liquidity risk

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

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

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

4.4.2 Maturity analysis of financial liabilities

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

30 June 2018	Up to1 month Birr'000	Up to3 months Birr'000	up to12 months Birr'000	Over 1year Birr'000
Customer deposits	2,534,457	2,622,897	2,925,494	1,887,585
Due to financial institutions	22,800			1,000
Margins held	247,083			
Other liabilities	270,310	53,040	71,387	9,667
Profit tax payable			84,042	
Total financial liabilities	**3,074,650**	**2,675,937**	**3,080,927**	**1,898,252**
30 June 2017				
Customer deposits	1,847,458	1,998,879	2,195,569	1,291,468
Due to financial institutions	3,701	-	-	1,000
Margins held	672,670	-	-	-
Other liabilities	242,721	6,208	25,422	2,786
Profit tax payable	-	-	105,259	-
Total financial liabilities	**2,766,551**	**2,005,087**	**2,326,250**	**1,295,254**
1 July 2016				
Customer deposits	1,482,756	1,516,710	1,614,077	885,010
Due to financial institutions	1,326	-	-	1,000
Margins held	632,962	-	-	-
Other liabilities	155,805	19,210	18,228	4,375
Profit tax payable	-	-	72,004	-
Total financial liabilities	**2,272,849**	**1,535,921**	**1,704,309**	**890,385**

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 optimizing the return on risk. Overall responsibility for managing market risk rests with the Board of Directors.

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

Management of market risk

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

Market risk is monitored by the risk management department on regularly, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

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

The asset and liability management committee is responsible for managing rate-sensitive assets and liabilities and the effects of rate,

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

30 June 2018	**Fixed Birr'000**	**Floating Birr'000**	**Non-interest bearing Birr'000**	**Total Birr'000**
Assets				
Cash and balances with banks		351,074	3,703,011	4,054,085
Loans and receivables		4,995,010	-	4,995,010
Investment securities	2,421,411	-	12,421	2,433,832
Total	**2,421,411**	**5,346,084**	**3,715,431**	**11,482,926**
Liabilities				
Deposits due to other banks		23,800		23,800
Deposits from customers		9,753,140	464,376	10,217,516
Debt securities issued		-	-	-
Other liabilities			400,748	400,748
Total	**-**	**9,753,140**	**865,124**	**10,618,264**

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In Ethiopian Birr

30 June 2017	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	-	1,289,822	1,888,986	3,178,808
Loans and receivables	-	3,989,364	-	3,989,364
Investment securities	2,035,331	-	11,789	2,047,120
Total	**2,035,331**	**5,279,186**	**1,900,775**	**9,215,292**
Liabilities				
Deposits due to other banks		4,701		4,701
Deposits from customers		7,226,268	779,777	8,006,045
Other liabilities			277,137	277,137
Total	**-**	**7,226,268**	**1,056,914**	**8,283,182**

1 July 2016	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks		1,089,338	1,119,273	2,208,611
Loans and receivables		3,422,845	-	3,422,845
Investment securities	1,656,441	-	11,789	1,668,230
Total	**1,656,441**	**4,512,183**	**1,131,062**	**7,299,686**
Liabilities				
Deposits due to other banks		2,326	-	2,326
Deposits from customers		4,041,785	2,089,730	6,131,515
Other liabilities	-	-	197,619	197,619
Total	**-**	**4,044,111**	**2,287,349**	**6,331,460**

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non–trading financial assets and financial liabilities held at 30 June 2018, 30 June 2017 and 1 July 2016. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

30 June 2018	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
	10%	27,067	27,067
30 June 2017	**Increase (decrease) in basis points Birr'000**	**Sensitivity of profit or loss Birr'000**	**Sensitivity of equity Birr'000**
	10%	18,126	18,126
1 July 2016	**Increase (decrease) in basis points Birr'000**	**Sensitivity of profit or loss Birr'000**	**Sensitivity of equity Birr'000**
	10%	16,033	16,033

(ii) Foreign exchange risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 2,204 million (30 June 2017: Birr 72,488 million, 1 July 2016: Birr 89,827 million).

Foreign currency denominated balances	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Financial assets			
Cash and bank balances	1,300,588	1,430,690	1,083,038
Customer deposits	1,079,098	521,123	460,826
Margins held	199,451	184,689	23,938
	1,278,549	705,811	484,764
Net foreign currency exposure	**22,039**	**724,878**	**598,273**

Sensitivity analysis for foreign exchange risk

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Impact on profit or loss			
10% change in exchange rates	2,204	72,488	59,827

4.6 Capital management

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

4.6.1 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 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Capital			
Capital contribution	1,125,425	850,425	650,425
Retained earnings	190,765	194,857	151,278
Legal reserves	334,169	266,413	200,270
	1,650,359	**1,311,695**	**1,001,973**
Risk weighted assets			
Risk weighted balance for on-balance sheet items	4,082,997	2,895,609	2,582,861
Credit equivalents for off-balance Sheet Items	784,452	346,645	357,615
	4,867,449.05	3,242,254	2,940,476
Risk-weighted Capital Adequacy Ratio (CAR)	34%	40%	34%
TIER 1 CAR Minimum required capital	8%	8%	8%
Excess	26%	32%	26%

4.7 Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

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

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

4.7.2 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 2018	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	4,054,085			4,054,085	4,054,085
Loans and receivables	4,995,010			4,995,010	4,995,010
Investment securities	2,433,832		2,421,411	12,421	2,433,832
Total	**11,482,927**	**-**	**2,421,411**	**9,061,516**	**11,482,927**
Financial liabilities					
Deposits due to other banks	23,800			23,800	23,800
Deposits from customers	10,217,516			10,217,516	10,217,516
Other liabilities	400,748			400,748	400,748
Total	**10,618,264**	**-**	**-**	**10,618,264**	**10,618,264**
30 June 2017					
Financial assets					
Cash and balances with banks	3,178,808			3,178,808	3,178,808
Loans and receivables	3,989,364			3,989,364	3,989,364
Investment securities	2,047,120		2,035,331	11,789	2,047,120
Total	**9,215,292**	**-**	**2,035,331**	**7,179,961**	**9,215,292**
Financial liabilities					
Deposits due to other banks	4,701	-	-	4,701	4,701
Deposits from customers	8,006,045	-	-	8,006,045	8,006,045
Other liabilities	277,137	-	-	277,137	277,137
Total	**8,287,883**	**-**	**-**	8,287,883	8,287,883
1 July 2016					
Financial assets					
Cash and balances with banks	2,208,611	-		2,208,611	2,208,611
Loans and receivables	3,275,969	-		3,275,969	3,275,969
Investment securities	1,668,230	-	1,656,441	11,789	1,668,230
Total	7,152,810	-	1,656,441	5,496,369	7,152,810
Financial liabilities					
Deposits due to other banks	2,326	-	-	2,326	2,326
Deposits from customers	6,131,515	-	-	6,131,515	6,131,515
Other liabilities	197,619	-	-	197,619	197,619
Total	**6,331,460**	**-**	**-**	**6,331,460**	**6,331,460**

4.7.3 Valuation technique using significant unobservable inputs – Level 3

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

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.

	30 June 2018 Birr'000	30 June 2017 Birr'000
5. Interest income		
Interest on term loans	463,688	301,144
Interest on merchandise loans	10,585	4,961
Interest on overdrafts	96,022	88,313
Interest on bills	11,760	12,250
Interest on investment securities	65,142	53,826
Interest on deposit with local banks	60,730	14,127
Interest on deposits with foreign banks	4,478	1,292
	712,405	475,913
6. Interest expense		
Interest on demand deposit	68	83
Interest on savings deposit	344,157	192,594
Interest of deposits	97,507	101,981
Interest on short term borrowing		-
	441,732	294,658

	30 June 2018 Birr'000	30 June 2017 Birr'000
7. Net fees and commission income		
Fee and commission income		
Commissions on letter of credit	18,976	7,368
Commissions on letter of guarantee	4,143	7,865
Commission on VISA transactions	1,399	1,737
Commission on MasterCard transactions	752	849
Service charge	287,790	311,428
Loan processing fee	2,903	4,071
Overdraft protection fee	364	326
Balance maintenance fee	3,196	3,120
Other fees and commission income	700	587
	320,223	337,351
Fee and commission expense	-	-
Net fees and commission income	**320,223**	**337,351**
8. Other operating income		
Postage and processing fees	2,700	2,181
Gain on foreign exchange	97,786	165,367
Sundry income	2,603	3,022
	103,089	170,570
9. Loan impairment charge		
Loans and receivables - charge for the year (note 15a)	27,044	48,593
Loans and receivables - reversal of provision (note 15a)		
	27,044	48,593
10. Impairment losses on other assets		
Other assets - charge for the year(note17)	609	17,504
Other assets - reversal of impairment losses (note17)		
	609	17,504

The accompanying notes are an integral part of the financial statements.

	30 June 2018 Birr'000	30 June 2017 Birr'000
11. Personnel expenses		
Salaries and wages	109,794	83,567
Staff allowances	13,313	11,185
Pension costs – Defined contribution plan	15,881	12,087
Bonus	16,671	12,828
Defined benefit expense	1,145	848
Other staff expenses	14,752	12,458
	171,556	**132,973**
12. Other operating expenses		
Advertisement	2,218	7,271
Board expenses	1,655	1,854
Audit fee	230	150
Other expenses	10,372	7,742
Bank charges	829	697
Cleaning supplies	579	576
Consultancy	4,165	2,590
Donations	425	259
Correspondent charges	2,591	1,906
Entertainment	1,200	630
Fuel	2,332	1,783
Insurance	1,672	2,217
License fees	13,161	7,849
Maintenance	1,982	1,793
Rent	39,136	32,683
Stationery	5,221	3,837
Telephone	1,199	1,071
Internet	5,317	3,865
Transport	14,521	6,879
Visa	7,687	7,026
Mastercard	5,773	5,079
Impairment Expense	107	-
	122,372	**97,757**

	30 June 2018 Birr'000	30 June 2017 Birr'000
13. Company income and deferred tax		
13a. Current income tax		
Company income tax	70,543	100,534
Prior year (over)/ under provision		
Prior Deffered Tax Adjustement		
Tax on foreign deposit interest		
Deferred income tax/(credit) to profit or loss	755	1,881
Total charge to profit or loss	71,298	102,416
Tax (credit) on other comprehensive income	(305)	6
Total tax in statement of comprehensive income	70,992	102,421

13b. Reconciliation of effective tax to statutory tax

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

Profit before tax		
IFRS Accounting profit	**342,319**	**368,432**
Tax calculated at statutory tax rate of 30 %	102,696	110,529
Add : Disallowed expenses		
Entertainment	360	189
Donation	127	78
NONDEDUCTABLE Representation Allowance	-	-
Bad debt Expense	183	5,060
Penalty	76	200
Obligation (Severance pay temporary difference)	-	-
Current service cost (Severance pay)	344	249
Loss on disposal of non-current assets	8	40
Impairement loss	32	-
Provision for loans and advances as per IFRs	8,113	14,578
Depreciation and Amortization for IFRS accounting purpose	9,026	7,175
	18,269	**27,569**

	30 June 2018 Birr'000	30 June 2017 Birr'000
Less :		
Depreciation for tax purpose and Amortization	8,100	7,205
Provision for loans and advances for tax NBE 80%	3,267	9,510
Gain on disposal of fixed assets	17	141
Interest income taxed at source- foreign at diffeent rate	1,343	388
Dividend income taxed at source	-	-
Interest income taxed at source-NBE Bills	19,543	16,148
Interest income taxed at source-Local Deposit	18,219	4,238
Interest income taxed at source- foreign at different rate	(67)	(65)
	50,422	**37,565**
	70,543	**100,534**

13c Current income tax liability	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Balance at the beginning of the year	105,259	72,004	47,168
Charge for the year:	70,543	100,534	72,051
Education tax:			
Capital gains tax			
Income tax expense			
Prior year (over)/ under provision			
WHT Notes utilised	(99)	(41)	(47)
Payment during the year	(91,661)	(67,239)	(47,168)
Balance at the end of the year	84,042	105,259	72,004

13d. Deferred income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets of Birr 10,829 (10,380, 8,492) for the Bank have not been recognised as at 30 June 2018, 30 June 2017 and 1 July 2016 respectively because it is not probable that future taxable profits will be available against which they can be utilised.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
The analysis of deferred tax assets/ (liabilities) is as follows:			
To be recovered after more than 12 months	10,829	10,380	8,492
To be recovered within 12 months			
	10,829	10,380	8,492

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 2017 Birr'000	Credit / (charge)to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2018 Birr'000
Property, plant and equipment	(11,287)	(1,098)		(12,385)
Provisions				
Unrealised exchange gain				
Tax losses charged to profit or loss				
Post employment benefit obligation	908	344	305	1,556
Total deferred tax assets/ (liabilities)	**(10,380)**	**(755)**	**305**	**(10,829)**
Property, plant and equipment	(9,151)	(2,136)		(11,287)
Provisions				
Unrealised exchange gain				
Tax losses charged to profit or loss				
Post employment benefit obligation	659	254	(6)	908
Total deferred tax assets/ (liabilities)	**(8,492)**	**(1,881)**	**(6)**	**(10,380)**

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In Ethiopian Birr

14. Cash and cash equivalents	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Cash on hand	347,542	297,308	173,525
Balances with domestic banks	354,912	156,440	14,048
Balances with foreign banks	1,462,976	1,133,382	1,075,290
Cash reserve with NBE	520,000	370,000	274,000
Balances with National Bank of Ethiopia-payment and settlement account	1,368,655	1,221,678	671,748
	4,054,085	3,178,808	2,208,611
Maturity analysis			
Current	3,534,085	2,808,808	1,934,611
Non-Current	520,000	370,000	274,000
	4,054,085	3,178,808	2,208,611

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

15. Loans and advances to customers			
Agriculture	87,957	234,016	70,526
Industry	1,338,064	655,798	747,815
Building and construction	308,468	369,054	312,418
Domestic Trade and Service	579,802	495,461	386,835
Export	757,404	736,252	545,526
Import	794,495	663,817	709,810
Transportation	160,930	237,059	262,788
Hotel and Tourism	362,812	194,745	171,028
Personal Loans - Customers	362,750	138,566	126,126
Emergency Staff Loans	209,284	126,762	89,620
Personal Loans - Staffs	-	-	-
Financial Institutions	255,557	333,303	-
Domestic Trade	-	-	-
Advance on Import Bills	-	-	-
Pre-shipments	-	-	-
Loans and Advances under Litigation	-	-	-
Mines,power,and water resource	-	-	353
Gross amount	**5,217,523**	**4,184,833**	**3,422,845**

The accompanying notes are an integral part of the financial statements.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Less: Impairment allowance (note 15a)			
- Specific impairment	(119,227)	(106,573)	(96,022)
- Collective impairment	(103,286)	(88,896)	(50,854)
	4,995,010	**3,989,364**	**3,275,969**
Maturity analysis			
Current	1,739,284	1,383,592	1,461,585
Non-Current	3,255,725	2,605,772	1,814,384
	4,995,010	**3,989,364**	**3,275,969**

15a. Impairment allowance on loans and advances to customers

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

Specific allowance for impairment	As at 1July 2016 Birr'000	Charge for the year Birr'000	As at 30June 2017 Birr'000	Charge for the year Birr'000	As at 30 June2018 Birr'000
Export	62,581	8,449	71,029	(45,357)	25,673
Hotels and Tourism	4,973	-	4,973	4,143	9,117
Import	17,851	2,066	19,917	24,153	44,070
Industry	10,617	37	10,654	24,949	35,602
DTS loans				4,765	4,765
	96,022	**10,551**	**106,573**	**12,654**	**119,227**
Collective allowance for impairment					
Agriculture loans	366		2,242	(519)	1,723
Building and construction loans	4,818	7,691	12,509	(4,402)	8,107
Consumer loans	597	1,041	1,638	(9)	1,629
DTS loans	1,858	2,646	4,503	(674)	3,829
Hotel loans	4,310	2,194	6,505	(175)	6,330
Export loans	8,548	7,904	16,451	38,410	54,861
Import loans	17,693	6,936	24,629	(11,211)	13,418
Industry loans	8,983	3,183	12,166	(3,750)	8,416
Transport loans	3,271	3,440	6,711	(2,606)	4,105
Staff loans loans	410	1,131	1,541	(674)	867
	50,854	**36,166**	**88,896**	**14,391**	**103,286**

16. Investment securities	**30 June 2018 Birr'000**	**30 June 2017 Birr'000**	**1 July 2016 Birr'000**
Available for sale:			
Equity Investments	12,421	11,789	11,789
	12,421	11,789	11,789
Loans and receivables:			
Treasury bills	2,419,377	2,034,301	1,655,386
Ethiopian Government bonds	2,034	1,030	1,055
Gross amount	**2,421,411**	**2,035,331**	**1,656,441**
Less individual allowance for impairment			-
	2,421,411	2,035,331	1,656,441
Maturity analysis			
Current	238,404	354,218	185,418
Non-Current	2,183,007	1,681,113	1,471,023
	2,421,411	**2,035,331**	**1,656,441**

The Banks hold equity investments in Eth-switch of 5% (30 June 2017: 6%, 1 July 2016: 6%) and First Capital Leasing of 1%(30 June 2017: 2%, 1 July 2016: 2%). These investments are unquoted equity securities measured at cost.

The fair value of the unquoted equity securities carried at cost cannot be reliably estimated as there are no active market for these financial instruments; they have therefore been disclosed at cost less impairment.

17. Other assets

Financial assets			
Uncleared effects-local	2,851	3,923	1,375
Uncleared effects-foreign	693	843	8,439
Sundry Debtors	339,200	250,131	119,924
Prepaid staff asset	36,029	34,780	28,930
Claim on HO and Branches	17	17	(16)
Gross amount	378,790	289,694	158,652
Less: Specific impairment allowance (note 17a)	(19,872)	(19,263)	(1,759)
	358,918	270,431	156,893

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Non-financial assets			
Inventory	9,795	6,965	4,041
	9,795	6,965	4,041
Gross amount	368,714	277,396	160,934
Maturity analysis			
Current	191,213	173,968	88,282
Non-Current	177,501	103,427	72,652
	368,714	**277,396**	**160,934**

17a Impairment allowance on other assets

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

	30 June 2018 Birr'000	30 June 2017 Birr'000
Balance at the beginning ofthe year	19,263	1,759
(Reversal)/charge for the year (note 10)	609	17,504
Balance at the end of the year	**19,872**	**19,263**

17b Inventory

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Stationary stock account	4,131	3,670	2,299
Other stock	2,236	1,533	864
Debit Cards, CPOs, Drafts and CDTs	122	57	115
Uniform stock	2,973	1,516	517
Cheque book stock	334	190	246
	9,795	**6,965**	**4,041**

	Computer software Birr'000	Capitalized expenditure Birr'000	SWIFT software Birr'000	Software under progress Birr'000	Total Birr'000
18. Intangible Assets					
Cost:					
As at 1 July 2016	57,376	8,379	578	6,525	72,858
Acquisitions	17,523	-	-	1,496	19,019
Internal development				-	-
Impairment losses	(1,534)				(1,534)
Transfer from property, plant and equipment				-	-
As at 30 June 2017	**73,366**	**8,379**	**578**	**8,021**	**90,344**
As at 1 July 2017	73,366	8,379	578	8,021	90,344
Acquisitions	15,208	-	-	(1,290)	13,918
Internal development				-	-
Transfer from property, plant and equipment				-	-
As at 30 June 2018	**88,574**	**8,379**	**578**	**6,731**	**104,262**
Accumulated amortisation and impairment losses					
As at 1 July 2016	25,400	8,379	578	-	34,357
Amortisation for the year	8,087	-	-	-	8,087
Impairment losses	(1,399)			-	(1,399)
As at 30 June 2017	**32,087**	**8,379**	**578**	**-**	**41,044**
As at 1 July 2017	32,087	8,379	578	-	41,044
Amortisation for the year	9,553			-	9,553
Impairment losses				-	-
As at 30 June 2018	**41,640**	**8,379**	**578**	**-**	**50,597**
Net book value					
As at 1 July 2016	31,977	-	-	6,525	38,501
As at 30 June 2017	41,279	-	-	8,021	49,300
As at 30 June 2018	46,934	-	-	6,731	53,665

The accompanying notes are an integral part of the financial statements.

	Work inprogress Birr'000	Motor vehicle Birr'000	Computers Birr'000	Office equipment Birr'000	Total Birr'000
19. Property, plant & equipment					
Cost:					
As at 1 July 2016	**-**	**46,325**	**60,440**	**41,295**	**148,060**
Additions	97,970	15,663	4,943	11,004	129,580
Reclassifications	76		1,961	904	2,942
Disposals	-	(525)	-	-	(525)
As at 30 June 2017	**98,046**	**61,462**	**67,344**	**53,204**	**280,056**
As at 1 July 2017	98,046	61,462	67,344	53,204	280,056
Additions	307,287	3,723	7,358	7,554	325,922
Disposals	-	-	(550)	(99)	(649)
Reclassification	-	(34)	5,917	4,269	10,152
As at 30 June 2018	**405,333**	**65,151**	**80,069**	**64,927**	**615,481**
Accumulated depreciation					
As at 1 July 2016	-	10,769	23,479	15,932	50,181
Charge for the year	-	4,975	6,252	4,604	15,831
Disposals	-	(437)	-	-	(437)
As at 30 June 2017	**-**	**15,308**	**29,732**	**20,536**	**65,575**
As at 1 July 2017	-	15,308	29,732	20,536	65,575
Charge for the year	-	6,124	7,632	6,776	20,532
Impairement	-	-	31	47	78
Reclassification			(590)	(125)	(715)
Disposals	-	-	(372)	(83)	(455
As at 30 June 2018	**-**	**21,432**	**36,432**	**27,150**	**85,014**
Net book value					
As at 1 July 2016	-	35,556	36,960	25,363	97,879
As at 30 June 2017	98,046	46,155	37,612	32,668	214,481
As at 30 June 2018	405,333	43,719	43,637	37,777	530,466

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2018

In Ethiopian Birr

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
20. Deposits due to other banks			
Balances due to other banks	23,800	4,701	2,326
	23,800	4,701	2,326
Maturity analysis			
Current	22,800	3,701	1,326
Non-Current	1,000	1,000	1,000
	23,800	4,701	2,326
21. Deposits from customers			
Demand deposits	2,674,304	1,829,620	1,456,768
Time deposits	1,031,115	1,088,802	1,235,221
Savings deposits	6,047,721	4,307,846	2,714,535
Retention deposits	217,293	107,107	92,029
Other deposits	247,083	672,670	632,962
	10,217,516	8,006,045	6,131,515
Maturity analysis			
Current	8,082,848	6,041,906	4,613,544
Non-Current	2,134,668	1,964,139	1,517,972
	10,217,516	8,006,045	6,131,515
22. Other liabilites			
Financial liabilities			
Accrued leave	9,719	6,587	9,014
Cashier payment orders	173,016	80,381	101,688
Dividend payable	11,586	10,109	9,004
Exchange payable to National Bank of Ethiopia	6,962	19,963	18,858
Old drafts outstanding	13,738	5,644	4,397
Directors Share on Profit	771	705	748
Claim on HO and Branches	-	-	-
	215,792	**123,389**	**143,709**
Non-financial liabilities			
Taxes and stamp duty charges	8,589	4,714	4,139
Miscellaneous	141,190	118,338	17,337
Unearned income	18,737	17,868	22,296
Provision for Bonus	16,440	12,828	10,138
	184,956	153,748	53,910
Gross amount	**400,748**	**277,137**	**197,619**

The accompanying notes are an integral part of the financial statements.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Maturity analysis			
Current	394,738	274,351	193,244
Non-Current	6,010	2,786	4,375
	400,748	277,137	197,619

23. Retirement benefit obligations

Defined benefits liabilities:			
– Pension prize (note26a)	5,188	3,025	2,196
Liability in the statement of financial position	**5,188**	**3,025**	**2,196**
Income statement charge included in personnel expenses:			
– Pension prize (note26a)	1,145	848	-
Total defined benefit expenses	**1,145**	**848**	**-**
Remeasurements for:			
– Pension prize (note26a)	999	(19)	-
	999	**(19)**	**-**

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

Maturity analysis			
Current	999	(19)	-
Non-Current	999	(19)	-

23a Pension prize

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
A Liability recognised in the financial position	5,188	3,025	2,196
B Amount recognised in the profitor loss			
Current service cost	625	467	-
Interest cost	520	381	-
	1,145	848	-
C Amount recognised in other comprehensive income:			
Remeasurement (gains) /losses arising from changes in demographic assumptions	-	-	-
Remeasurement (gains)/losses arising from changes in the economic assumptions	1,281	(428)	-
Remeasurement (gains)/losses arising from experience	(263)	409	
Tax credit /(charge)	-	-	-
	1,018	(19)	-

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

	30 June 2018 Birr'000	30 June 2017 Birr'000
At the beginning of the year	3,025	2,196
Current service cost	625	467
Interest cost	520	381
Remeasurement (gains) / losses	1,018	(19)
Benefits paid		
At the end of the year	5,188	3,025

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Discount Rate (p.a)	12.54%	14%	14.30%
Rate of Pension Increase(p.a)	12%	9.70%	11.60%
Average Rate of Inflation (p.a)	10%	7.70%	9.60%

ii) Mortality in Service

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

Sample mortality rates are as follows:

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

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 10% at the youngest ages falling with increasing age to 2.5% at age 44.

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

Impact on defined benefit obligation

		30 June 2018		**30 June 2017**	
	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%	(18,771)	19,440	(91,075)	94,319

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
24. Ordinary share capital			
Authorised:			
Ordinary shares of Birr 1000 each	1,125,000	850,000	650,000
Issued and fully paid:			
Ordinary shares of Birr 1000 each	1,125,000	850,000	650,000

25. Earnings per share

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

	30 June 2018 Birr'000	30 June 2017 Birr'000
Profit attributable to shareholders	271,021	266,016
Weighted average number of ordinary shares in issue	947	689
Basic & diluted earnings per share (Birr)	286	386

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2017:nil, 1 July 2016: nil), hence the basic and diluted loss per share have the same value.

26. Retained earnings

At the beginning of the year	194,857	151,278
Profit/ (Loss) for the year	271,021	266,016
Other comprehensive income		-
Divdends paid	(197,727)	(151,326)
Income tax paid	-	-
Directors share on profits	(771)	(705)
Re-measurement gains on defined benefit plans (net of tax)		-
Transfer to legal reserve	(67,755)	(66,144)
Transfer to regulatory risk reserve	(8,859)	(4,263)
At the end of the year	190,765	194,857

27. Legal reserve

	30 June 2018 Birr'000	30 June 2017 Birr'000
At the beginning of the year	266,413	200,270
Transfer from profit or loss	67,755	66,144
At the end of the year	334,169	266,413

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

28. Regulatory risk reserve

At the beginning of the year	38,264	34,001
Transfer (from) / to retained earnings	8,859	4,263
At the end of the year	47,123	38,264

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia(NBE) to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the incurred loss model.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

	Note	30 June 2018 Birr'000	30 June 2017 Birr'000
29. Cash generated from operating activities			
Profit before tax		342,319	368,432
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	19	20,532	15,831
Amortisation of intangible assets	18	9,553	8,087
Gain/(Loss) on disposal of property, plant and equipment	19	(29)	(336)
Impairment on loans and receivables	15	27,044	48,593
Impairment on other assets	17	609	17,504
Impairment on fixed assets		107	-
Retirement benefit obligations		1,145	848
Changes in working capital:			
-Decrease/ (Increase) in loans and advances to customers	15	(1,032,690)	(761,988)
-Decrease/ (Increase) in other assets	17	(91,927)	(133,965)
-Increase/ (Decrease) in other liabilities	22	122,840	79,518
Proceeds/ (Repayments) of deposits from banks	20	19,099	2,375
Proceeds/ (Repayments) of deposits from customers		2,211,471	1,874,530
		1,630,074	**1,519,427**

In the statement of cash flows, profit on sale of property, plant and equipment (PPE) comprise:

Proceeds on disposal	223	559
Net book value of property, plant and equipment disposed (Note 20)	(194)	(222)
Gain / (loss) on sale or disposal of non-current assets	29	336

The accompanying notes are an integral part of the financial statements.

30. Related party transactions

Zemen Bank is a privately owned commercial bank

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

Key Managment 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 2018.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Mgt Salaries and other short-term employee benefits	6,920	5,268	4,466
Post-employment benefits	-	-	-
Termination benefits	-	-	-
Sitting allowance	319	226	216
Board Rumeneration and salary	1,426	1,101	952
Other expenses			-
	8,666	6,595	5,634

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

31. Directors and employees

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

Manegerial	96	71	45
Clerical	416	442	346
Non-clerical	193	190	148
Contractual	19	32	26
	724	735	565

32. Contingent liabilities

32a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. No provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

32b Guarantees and letters of credit

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Performance guarantees and Letters of credit	174,021	211,292	454,468
	174,021	211,292	454,468

33. Commitments

The Bank has commitments, not provided for in these financial statements, of Birr 77,357 (30 June 2017: Birr 56,999 million)

34. Operating lease commitments - Bank as lessee

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
No later than 1 year	18,765	20,824	33,440
Later than 1 year and no later than 2 years	26,247	18,899	17,376
Later than 2 years but not later than 5 years	32,345	17,276	17,882
Total	**77,357**	**56,999**	**68,698**

35. Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2018 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

36. First-time adoption of IFRS for the Bank

These financial statements, for the period ended 30 June 2018, are the first the Bank has prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For periods up to and including the year ended 30 June 2017, the Bank prepared its financial statements in accordance with the Ethiopian GAAP. Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2018, together with the comparative period data as at and for the year ended 30 June 2017, as described in the summary of significant accounting policies.

In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 1 July 2016, the Bank's date of transition to IFRS. This note explains the principal adjustments made by the Bank in restating its financial statements prepared under the previous framework, including the statement of financial position as at 1 July 2016 and the financial statements as at and for the year ended 30 June 2017.

In preparing its opening IFRS statement of financial position, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) of Ethiopia and the Commercial code of 1960. An explanation of how the transition from GAAP to IFRS has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The most significant IFRS impact for the Bank resulted from the implementation of IAS 39 Financial Instruments: Recognition and Measurement which requires the bank to classify its financial instruments into available for sale, fair value through profit and loss, loans and receivables and held to maturity. Also the impairment of financial assets only in cases where there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (referred to as an "incurred loss" model).

In preparing these financial statements in accordance with IFRS 1, the Bank has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Bank are summarised below.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. Following from the principles underpinning IFRS 1, the Bank has applied the following exemptions:

(a) *Deemed cost for property, plant and equipment and intangible assets*

Property, plant and equipment and intangible assets were carried in the statement of financial position prepared in accordance with previous framework using histroical cost. The Bank has elected to regard those values as deemed cost at the transition date as carrying value under GAAP and IFRS is not expected to be materially different

(b) Leases

Banks are required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 1 July 2016. Any contracts that exist would result in classification based on the facts and circumstances that exist at transition date

(c) Designation of Previously Recognised Financial Instruments

Applying this exemption means that Banks is permitted to designate a financial asset as available-for-sale at the date of transition to IFRS. The Bank has designated unquoted equity instruments held at 1 July 2016 as available-for-sale investments

(d) Fair value measurement of financial instruments at initial recognition

Banks may apply the requirement to recognise day 1 gain or loss prospectively to transactions entered into on or after the date of transition to IFRS. This will result in no gain or loss recognised on the initial recognition of a financial asset or financial liability prior to 1 July 2016

Exceptions applied

(a) Estimates

Estimates made in accordance with IFRSs at the date of transition to IFRS should be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any differences in accounting policies), unless there is objective evidence that those estimates were in error or where application of previous framework did not require estimation such as post-employment benefits.

(b) De-recognition of financial assets and financial liabilities

This exception exempts a first time adopter from full retrospective application of the de-recognition rules in IAS 39, “Financial instruments: Recognition and measurement”, for all financial assets and liabilities derecognised before 1 January 2004 or transition date. Therefore, financial assets and liabilities derecognised before 1 July 2016 are not re-recognised under IFRS

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. Following from the principles underpinning IFRS 1, the Bank has applied the following exemptions:

Deemed cost for property, plant and equipment and intangible assets

Banks are required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 1 July 2016. Any contracts that exist would result in a classification based on the facts and circumstances that exist at transition date

36 a. Reconciliation of Statement of total comprehensive income for the year ended 30 June 2017

	Notes	GAAP Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS as at 30 June 2017 Birr'000
Interest income	A	463,185	-	12,727	475,911
Interest expense		294,658			294,658
Net interest income		**168,526**	**-**	**12,727**	**181,253**
Fee and commission income	B	332,923	-	4,427	337,351
Fee and commission expense		-			-
Net fees and commission income		**332,923**	**-**	**4,427**	**337,351**
Other operating income		170,100		471	170,571
Total operating income		**671,550**	**-**	**17,625**	**689,174**
Loan impairment charge	C	39,623	-	8,970	48,593
Impairment losses on other assets		17,504			17,504
Net operating income		**614,423**	**-**	**8,655**	**623,077**
Personnel expenses	D	128,255		4,717	132,972
Amortisation of intangible assets	E	10,498	-	(2,411)	8,087
Depreciation and impairment of property, plant and equipment	F	21,754	-	(5,923)	15,831
Other operating expenses	G	97,641	-	116	97,757
Profit before tax		**356,275**	**-**	**12,155**	**368,431**
Income tax expense		91,701		10,714	102,415
Profit after tax		**264,574**	**-**	**1,441**	**266,016**
Other comprehensive income (OCI) net on income tax					
Items that will not be subsequently reclassified into profit or loss:					
Remeasurementgain/ (loss) on retirement benefits obligations	H	-	-	19	19
Deferred tax (liability) /asset on remeasurement gain or loss		-	-	(6)	(6)
		-	-	13	13
Total comprehensive income for the period		**264,574**	**-**	**1,455**	**266,029**

The accompanying notes are an integral part of the financial statements.

36b Reconciliation of balance sheet as at 30 June 2017

ASSETS	Notes	GAAP Birr'000	Error Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS as at 30 June 2017 Birr'000
Cash and cash equivalents		3,178,809	-			3,178,809
Loans and advances to customers	I	3,970,610		-	18,755	3,989,365
Asset Held for sale		48				48
Investment securities	J	2,019,346		27,774	-	2,047,120
Other assets	K	276,172		(35,344)	36,566	277,394
Intangible assets	L	39,514		-	9,786	49,300
Property, plant and equipment	M	177,600		7,570	29,312	214,482
Leasehold land		6,958		-	(6,958)	(0)
Total assets		**9,669,056**		**-**	**87,462**	**9,756,518**
LIABILITIES						
Deposits due to other banks		4,701		-	-	4,701
Deposits from customers	N	7,995,952		10,093.43	-	8,006,045
Current income tax liability		91,661			13,598	105,259
Other liabilities	O	256,534		(10,093.43)	30,696	277,137
Finance lease obligation		5,644			(5,644)	0
Deferred tax liability		-			10,380	10,380
Retirement benefit obligation	P	-		-	3,025	3,025
Total liabilities		**8,354,492**	-	**-**	**52,054**	**8,406,546**
EQUITY						
Share capital		850,000				850,000
Share premium		425				425
Retained earnings	Q	197,726			(2,870)	194,857
Legal reserve		266,413				266,413
Regulatory risk reserve		-			38,264	38,264
Other reserve		-			13	13
		1,314,565	-	-	35,407	1,349,972
Total equity and liabilities		**9,669,056**	-	-	**87,462**	**9,756,518**

The accompanying notes are an integral part of the financial statements.

36c Reconciliation of balance sheet as at 1 July 2016

		GAAP Birr'000	Error Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS as at 1 July 2016 Birr'000
ASSETS						
Cash and cash equivalents		2,208,611	-	-	-	2,208,611
Loans and advances to customers	I	3,253,942		-	22,028	3,275,970
Investment securities	J	1,645,223	-	23,007	-	1,668,230
Other assets	K	158,100	-	(27,711)	30,545	160,934
Intangible assets	L	30,992	-	-	7,509	38,501
Property, plant and equipment	M	70,180	-	4,704	22,995	97,879
Leasehold land		7,084		-	(7,084)	-
Deferred tax assets		-	-	-	-	-
Total assets		**7,374,132**	-	-	75,994	**7,450,126**
LIABILITIES						
Deposits due to other banks		2,326	-	-	-	2,326
Deposits from customers	N	6,119,879	-	11,636	-	6,131,515
Current tax liability		67,239	-		4,765	72,004
Other liabilities	O	176,821	-	(11,636)	32,434	197,618
Finance lease obligation		5,846	-		(5,846)	0
Deferred tax liability		-	-		8,492	8,492
Retirement benefit obligations	P	-	-	-	2,196	2,196
Total liabilities		**6,372,110**		**-**	**42,041**	**6,414,152**
EQUITY						
Share capital		650,000	-	-		650,000
Share premium		425	-	-		425
Retained earnings	Q	151,327	-	-	(49)	151,278
Legal reserve		200,270	-	-		200,270
Regulatory risk reserve		-	-	-	34,001	34,001
		1,002,021	-	-	33,953	1,035,974
Total equity and liabilities		**7,374,132**	-	-	**75,994**	**7,450,126**

The accompanying notes are an integral part of the financial statements.

37. Notes to the reconciliation of equity as at 1 July 2016 and 30 June 2017 and total comprehensive income for the year ended 30 June 2017.

	30 June 2017 Birr'000
A. Interestincome	
Interest income under previous GAAP	463,185
Reclassification adjustments	
Remeasurement adjustmens	
Remeasurement: Recognition of the difference between the interest recognised using the market rate and the below market interest rate for staff loans	2,326
Remeasurement-To record interest income adjustment on impaired loans	10,401
Interest income under IFRS	**475,911**
B. Fee and commission income	
Fees and commission under previous GAAP	332,923
Reclassification adjustments	
Remeasurement adjustmens	
Remeasurement adjustment- To defer LC commission	1,239
Remeasurement adjustment- to defer loan origination fee	(1,069)
Remeasurement adjustment- to defer loan guarantee commission	4,258
Fees and commission under IFRS	**337,351**
C. Other operating income	
Other operating income under previous GAAP	170,100
Reclassification adjustments	-
Remeasurement adjustmens	
Remeasurement adjustment- To Adjust for gian on desposal of asset	471
Fees and commissionunderIFRS	**170,571**

The accompanying notes are an integral part of the financial statements.

ZEMEN BANK S.C.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2018

In Ethiopian Birr

	30 June 2017 Birr'000
D. Loan impairment charge	
Loan impairment charge under previous GAAP	39,623
<u>Reclassification adjustments</u>	
<u>Remeasurement adjustmens</u>	
Loan impairment charge as per IFRS	48,593
To reverse previous impairement charge under local GAAP	(39,623)
Loan impairment charge under IFRS	**48,593**

E. Personnel expenses	
Personnel expenses under previous GAAP	128,255
<u>Reclassification adjustments</u>	
<u>Remeasurement adjustmens</u>	
To adjust for defined benefit scheme	848
To adjust for bonus provision	2,690
To adjust staff benefit expense	1,179
Personnel expenses under IFRS	**132,972**

F. Amortisation of intangible assets	
Amortisation of intangible assets under previous GAAP	10,498
<u>Reclassification adjustments</u>	
<u>Remeasurement adjustmens</u>	
Being adjustment to adequately recognised amortisation charge for intangible assets after opting to use the cost model	(2,411)
Amortisation of intangible assetse under IFRS	**8,087**

The accompanying notes are an integral part of the financial statements.

G. Depreciation and impairment of property, plant and equipment

Depreciation and impairment of property, plant and equipment under previous GAAP	21,754
Reclassification adjustments	
Remeasurement adjustmens	
Being adjustment to adequately recognised depreciation charge for office furniture after opting to use the cost model	(869)
Being adjustment to adequately recognised depreciation charge for office equipment after opting to use the cost model	(420)
Being adjustment to adequately recognised depreciation charge for computers after opting to use the cost model	(1,287)
Being adjustment to adequately recognised depreciation charge for motor vehicle after opting to use the cost model	(3,348)
Being adjustement to add back disposal of motor vehicles	-
Being Adjustement from Construction under progress	-
Depreciation and impairment of property, plant and equipment under IFRS	**15,831**

H. Other operating expenses

Other operating expenses under previous GAAP	97,641
Reclassification adjustments	
Remeasurement adjustmens	
Impairment of intangiable asset	134
Remeasurement- To adjust Advertising expense from Construction under progress	76
Remeasurement-To reverse lease expense booked under GAAP	(126)
Remeasurement- To adjust for lease expense as per IFRS	31
Other operating expenses under IFRS	**97,757**

I. Remeasurement gain/ (loss) on retirement benefits obligations

Remeasurement gain / (loss) on retirement benefits obligations under previous GAAP	-
Reclassification adjustments	
Remeasurement adjustmens	
To adjust for defined benefit scheme	19
Remeasurement gain / (loss) on retirement benefits obligations under IFRS	**19**

J. Loans and advances to customers	**30 June 2017 Birr'000**	**1 July 2016 Birr'000**
Loans and receivables under previous GAAP	3,970,610	3,253,942
Reclassification adjustments		
Remeasurement adjustmens		
Remeasurement adjustment- to reverse NBE provisions	149,895	149,895
Remeasurement adjustment-Recognition of the difference between the interest recognised using the market rate and the below market interest rate	9,276	6,951
Remeasurement adjustment- to recognise staff loans at fair value	(39,232)	(32,202)
Remeasurement adjustment- to write back suspended interest	60,210	44,261
Remeasurement adjustment - Impairment allowance on loans and advances to customers	(195,469)	(146,876)
To reverse previous impairement charge under local GAAP	39,623	-
Remeasurement- To record interest income adjustment on impaired loans	(5,547)	-
Loans and advances to customersper IFRS	**3,989,365**	**3,275,970**

Under previous GAAP,provisions for loans and advances were computed as per the National Bank of Ethiopia directive. These provisions were held against the total exposure of the loans and advances to customers.

Under IFRS, the above provisions have been reclassified to a reglatory credit risk reserve.

The remeasurement adjustment on impairment allowances on loans and advances to customer relates to impairment provisions that have been computed as per IFRS.

Under previous GAAP, the staff loans were not measured at fair value.There measurement adjustments on staff loans relate to adjustments passed to record the loans at fair value as per IFRS.

K. Investment securities	30 June 2017 Birr'000	1 July 2016 Birr'000
Investment securities under previous GAAP	2,019,346	1,645,223
Reclassification adjustments		
Reclassification adjustment- Interest on NBE Bills(see Note C)	27,744	22,952
Reclassification adjustment - Interest on NBE bonds	30	55
Remeasurement adjustments		
Investment securities per IFRS	**2,047,120**	**1,668,230**

The adjustment on NBE bills and bonds relates to the recognition of these securities at amortised costs using the effective interest method.

L. Other assets		
Other assets	276,172	158,100
Reclassification adjustments		
Reclassification adjustment - Interest receivable NBE Bills	(27,744)	(22,952)
Reclassification adjustment - Interest on NBE bonds	(30)	(55)
Reclassification adjustment - Fixed assets in store	(7,570)	(4,704)
Remeasurement adjustments		
Remeasurement adjustment- to recognise staff loans at fair value	39,232	32,202
Remeasurement adjustment- amortisation of cumulative prepaid employee benefit	(4,452)	(3,273)
Remeasurement- To adjust for lease expense as per IFRS	(31)	
Remeasurement- To adjust for advance payment on lease	202	
Remeasurement- To adjust for leasehold land	1,714	1,714
Being adjustement on leasehold land amortization	(98)	(98)
Other assets per IFRS	**277,394**	**160,934**

Under previous GAAP, interest receivable on NBE Bills and Bonds was recognised separately as part of other assets. Under IFRS, the interest receivable has been reclassified to the related asset.

Under previous GAAP, fixed assets in store were previosly classified under other assets. These have been reclassified to Property, plant and equipment for IFRS purposes.

M. Intangible assets	30 June 2017 Birr'000	1 July 2016 Birr'000
Intangible assets as per GAAP	39,514	30,992
Reclassification adjustments		
Reclassification adjustment		
Remeasurement adjustments		
Being adjustment to adequately recognised amortisation charge for assets after opting to use the cost model	9,786	7,509
Property, plant and equipment per IFRS	**49,300**	**38,501**

N. Property, plant and equipment		
Property, plant and equipment	177,600	70,180
Reclassification adjustments		
Reclassification adjustment - Fixed assets in store	7,570	4,704
Remeasurement adjustments		
Being adjustment to adequately recognised depreciation charge for office furniture after	4,732	3,863
Being adjustment to adequately recognised depreciation charge for office equipment after opting to use the cost model	714	294
Being adjustment to adequately recognised depreciation charge for computer equipment after opting to use the cost model	11,078	9,792
Being adjustment to adequately recognised depreciation charge for motor vehicle after opting to use the cost model	12,393	9,046
Being adjustement to addback disposal of motor vehicles	471	
Being Adjustement from Construction under progress	(76)	
Impairment of non-current assets		
Property, plant and equipment per IFRS	**214,482**	**97,879**
Leasehold land		
Leasehold land under GAAP	6,958	7,084
Reclassification adjustments		
Remeasurement adjustments		
Remeasurement-To reverse lease expense booked under GAAP	126	
Remeasurement- To adjust for leasehold land	(7,560)	(7,560)
Being adjustement on leasehold land amortization	476	476
Lease hold land under IFRS	**(0)**	**-**

The accompanying notes are an integral part of the financial statements.

	30 June 2017 Birr'000	1 July 2016 Birr'000
Deposits due to other banks		
Deposits due to other banks under previous GAAP	4,701	2,326
Reclassification adjustments		
Reclassification adjustment - Accrued interest on deposits from customers		-
Remeasurement adjustments		
Deposits due to other banks per IFRS	**4,701**	**2,326**

Under the previous GAAP, interest accrued on interest bearing deposits due to other banks were recognises separately as part of other liabilities. Under IFRS, interest payable is included in the carrying amount of the financial liability giving rise to it. All interest payable was reclassified to be included in the carrying amount of the financial liabilities giving rise to it.

O. Deposits from customers

Deposits from customers under previous GAAP	7,995,952	6,119,879
Reclassification adjustments		
Reclassification adjustment - Accrued interest on deposits from customers	10,093	11,636
Remeasurement adjustments		
Deposits from customers per IFRS	**8,006,045**	**6,131,515**

Under the previous GAAP, interest accrued on interest bearing customer deposits were recognises separately as part of other liabilities. Under IFRS, interest payable is included in the carrying amount of the financial liability giving rise to it. All interest payable was reclassified to be included in the carrying amount of the financial liabilities giving rise to it.

P. Current tax Liabilites

Current income tax as per previous GAAP	91,661	67,239
Remeasurement adjustments		
To adjust for current income tax as per IFRS	13,598	4,765
	105,259	**72,004**

Q. Other liabilities	30 June 2017 Birr'000	1 July 2016 Birr'000
Other liabilities as per previous GAAP	256,534	176,821
Reclassification adjustments		
Reclassification adjustment - Accrued interest on deposits from customers	(10,093)	(11,636)
Remeasurement adjustments		
Remeasurement adjustment- to defer Letter of credit commission	11,285	12,524
Remeasurement adjustment- to defer loan origination fee	6,275	5,207
Remeasurement adjustment- to defer loan guarantee commission	307	4,565
Remeasurement: To adjust for bonus provision	12,828	10,138
Other liabilities per IFRS	**277,137**	**197,618**

Under previous GAAP, accrued interest on borrowings was recognised seperately in other liabilities. Under IFRS, the interest accrued on borrowings has been reclassified into the related financial liability.

R. Finance lease obligation

Finance lease obligation as per previous GAAP	5,644	5,846
Reclassification adjustments		
Remeasurement adjustments		
Remeasurement- To adjust for advance payment on lease	202	
Remeasurement- To adjust for leasehold land	(5,846)	(5,846)
	-	-

Deferred tax liabilities as per previous GAAP	-	-
Remeasurement adjustments		
To adjust for deferred tax as per IFRS	10,380	8,492
	10,380	8,492

S. Retirement obligations	30 June2017 Birr'000	1 July2016 Birr'000
Retirement benefit obligations as per previous GAAP	-	-
Reclassification adjustments		
Remeasurement adjustments		
Remeasurement adjustments To adjust for defined benefit obligation	3,025	2,196
Retirement benefit obligations per IFRS	**3,025**	**2,196**

T. Retained earnings

Retained earnings as per previous GAAP	197,726	151,327
At the beginning of the year	33,953	
Income tax adjustement		
Remeasurement adjustments		
Remeasurement adjustment- to reverse NBE provisions		149,895
Remeasurement adjustment - Impairment allowance on loans and advances to customers	(48,593)	(146,876)
Remeasurement adjustment- to write back suspended interest	15,948	44,261
Remeasurement adjustment- Recognition of the difference between the interest recognised using the market rate and the below market interest rate	2,326	6,951
Remeasurement adjustment - recognition of additional provisions required as per NBE directive		-
Being adjustment to adequately recognised depreciation charge for office furniture after opting to use the cost model	869	3,863
Being adjustment to adequately recognised depreciation charge for office equipment after opting to use the cost model	420	294
Being adjustment to adequately recognised depreciation charge for computer equipment after opting to use the cost model	1,287	9,792
Being adjustment to adequately recognised depreciation charge for motor vehicle after opting to use the cost model	3,348	9,046
Being adjustment to adequately recognised amortisation charge for assets after opting to use the cost model	2,411	7,509
Impairment of non-current assets	(134)	

	30 June 2017 Birr'000	1 July 2016 Birr'000
Being adjustement to disposal of motor vehicles	471	
To adjust for defined benefit obligation	(848)	(2,196)
Remeasurement adjustment- amortisation of cumulative prepaid employee benefit	(1,179)	(3,273)
Remeasurement adjustment- to defer Letter of credit commission	1,239	(12,524)
Remeasurement adjustment- to defer loan origination fee	(1,069)	(5,207)
To reverse previous impairement charge under local GAAP	39,623	
Remeasurement adjustment- to defer loan guarantee commission	4,258	(4,565)
Remeasurement: To adjust for bonus provision	(2,690)	(10,138)
Remeasurement-To reverse lease expense booked under GAAP	126	
Remeasurement- To adjust for lease expense as per IFRS	(31)	
Remeasurement- To record interest income adjustment on impaired loans	-	
Being adjustement on leasehold land amortization		378
To adjust for current income tax as per IFRS	(8,833)	(4,765)
To adjust for deferred tax as per IFRS	(1,881)	(8,492)
To exclude Suspended interest and reclacify to Regulatory risk reserve	(5,547)	-
Being Adjustement from Construction under progress	(76)	-
Regulatory risk reserve net	(38,264)	(34,001)
Retained earnings per IFRS	**194,857**	**151,278**

U. Regulatory risk reserve

Remeasurement adjustments

Remeasurement adjustment - Impairment allowance on loans and advances to customers (see note A)	-	3,018.19
Remeasurement adjustment - Suspend interest		
Income tax Impact	54,663	44,261
	(16,399)	(13,278)
Regulatory risk reserve per IFRS	**38,264**	**34,001**

As per regulatory requirement, the (surplus) /deficit of the NBE guidelines on impairment provision and IFRS requirement is recognised in the regulatory risk reserve.

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