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Berhan Bank

Annual Report

2018/19

Contents

Vision

To be a radiant and trustworthy bank in excellence

Mission

Provide diverse financial products by deploying motivated and qualified human resource as well as up-to-date technology with highest ethical standard to create maximum value to stakeholders.

Values

Quality Service
Utmost respect to customers
Innovation, excellence and progress
Integrity and loyalty
Professionalism and team spirit
Collaboration and partnership
Public confidence and trust
Fairness
Confidentiality

Board of Directors

Ato Gumachew Kussie
Chairperson

Nardos Berehanu (PhD)
Vice Chairperson

Ato Mulatu Belachew
Director

Daniel Assefa (Architect)
Director

Fasil Nahum (PhD)
Director

W/ro Amarech Bekalo
Director

W/ro Meron Gezahegn
Director

Aynalem Abayneh (PhD)
Director

Ato Eligo Legesse
Director

Ato Alemayehu Melesse
Director

Executive Management Team

Ato Abraham Alaro
President

Ato Solomon Assefa
V/P – Customer Service and Quality Assurance

Ato Ermias Tefera
V/P – Corporate Strategy and Resource Mobilization

W/ro Bethlehem Getachew
V/P – Corporate Services

Ato Amanuel Taddesse
V/P – Operation

Ato Tadesse Hatiya
Executive Assistant to the President

W/ro Sehin Tsige
Director – Internal Audit Department

Ato Wossen Alemeye
Chief Information Officer

Ato Anteneh Mekonnen
Director- Risk and Compliance Management Department

W/ro Semenawit Abadi
Director-Strategic Planning and Appraisal Department

Ato Shimelis Tesfaye
Director-Human Resource Operation and Development Department

Ato Beneyam Mesfin
Director- Marketing and Corporate Communication Department

Ato Masresha H/Michael
Director - Corporate Customers and Relationship Department

Ato Desalegn Fissehatsion
Director - Finance and Accounts Department

Ato Bereket Teketel
Director- Business Development and Intelligence Department

Ato Thomas Desalegn
Director - Transformation and Change Management Department

Ato Wale Yirga
Director- Resource Mobilization Department

Ato Million Zeleke
Director-Credit Analysis and Appraisal Department

W/ro Kidist Abraham
Director - International Banking Department

W/ro Elsa Ketema
Director - Facility Management Department

Ato Dagmawi Kassahun
Director – Service Outlet and Standardization Department

Ato Bayissa Milkessa
Director - Legal Service and Loan Recovery Department

Ato Yared Aguade
Director - Engineering and Valuation Department

Ato Tesfaye Maru
Director-Treasury and Investment Department

Message from the Board Chairperson

Dear Shareholders,

The fiscal year 2018/19 was a year of fabulous progress in moving forward the corporate agenda of the Bank and I feel very privileged to present our Bank's 10th annual performance report that is presented in the midst of heralding our Bank's 10th anniversary.

It is of great pleasure for me to congratulate you on the continued successes of our Bank over these valued years. These 10 years' experience mark the unique vision treasured, effective strategies adopted, years of togetherness and years of improvements, finally making dreams a reality.

Another milestone added to this 10th anniversary is our Bank's recent move in rebranding itself where its look and its logo represented in a new face to further articulate and solidify its vision and values, and to reposition itself in a more visible and convenient manner.

This consistent performance has been driven by a well-organized growth strategy and guided by a set of strategic shifts and initiatives undertaken by the Bank. It also reflects a difference in how all the Bank's community across the board remained committed to the Bank's vision.

The Bank's strong performance can further be underpinned by the unwavering objectives to serve our customers, and a set of shared commitment to contribute towards the development of the national economy.

The year 2018/19, brought its opportunities and challenges to the banking industry. The macroeconomic environment in Ethiopia, can be well explained by numerous challenges encountered. As the country is deeply engulfed in the economic and political transition, vulnerabilities still clouding, ranging from tense political situations stemming from nationwide change initiatives on the political landscape, chronic foreign exchange shortage on top of global political developments having a negative bearing on the international trade, all affecting businesses.

In view of such circumstances, however, our Bank has once again proven its astounding endurance by registering remarkable growth not only in financial terms but also in bolstering stakeholders' confidence and creating new business opportunities.

In the past few years, technology and service quality have grown to become instrumental in reshaping the business posture for amidst stiff competition among banks.

Our Bank has, thus, built technology and quality human resource base to further strengthen its competitiveness in digital financial services to support customers with innovative solutions that surpass their expectations through promoting convenience.

In view of this, several electronic banking products have been introduced and integrated to make our customers' experience effortlessness. Besides, in a bid to accompanying the service outlet expansions and the business growth of the Bank, our Bank has fully employed the new datacenter after completing the data migration and subsequently upgrading the versions of the core banking solution.

The strategic focus placed on customer service quality and technological advancement had fundamental implications in the resource mobilization endeavors, as they are highly instrumental to seize opportunities surrounding the business.

Integrity has become one of our Bank's unique identities, among others, where the premises of trust and confidence of our stakeholders is built upon. This has come to be evident as our Bank stood among the top three banks, despite its limited foreign currency inflow, to claim the largest share of the NBE's foreign currency allocation which was mainly the outcome of Bank's compliance to the central bank's directives.

The fiscal year 2018/19 saw a profit before tax of Birr 580.1 million and Earnings per Share (EPS) of Birr 246.5 with par value of Birr 1000. The Bank's profit has exceeded last year's performance by 41.2 percent which is a plausible success to be commended in light of the stiff business competition in the industry. On top of this, our Bank has achieved the Birr 2 billion paid-up capital requirement a year ahead of the cutoff date i.e. June 2020, set by the National Bank of Ethiopia (NBE). Besides, as part of social responsibility, our Bank has responded in financial terms to the calls of the government and various regional states on several occasions.

The Board of Directors, the Management and the entire staff of the Bank have shown steadfast dedication to help customers, delivering strong operating performance as well as registering solid financial returns. These results are commendable by all measures and would like to congratulate everyone who are part of this incredible achievement.

On behalf of the Board of Directors, therefore, I would like to express my earnest gratitude to the Shareholders, the Supervisory Authority and our esteemed customers who have helped us to successfully navigate through decades of business challenges on our journey to success and reach this height.

Finally, a special regard to, the Management and employees of Berhan Bank, for their dedication, utmost effort and team spirit that will endure in the years ahead to cater for the vision of the Bank.

Thank you !

Gumachew Kussie

Message from the President

Dear Shareholders,

It gives me a great pleasure to writing this message and present major achievements of the Bank for the year ended June 30, 2019, in the event of commemorating the 10th anniversary of the Bank where we celebrate our success and raise the bar a little higher for our future.

The financial year 2018/19 marks significant operational and financial accomplishment and the Bank's performance reflects the competitive strengths embedded in our business model. The results are, admittedly, attributes of our valued shareholders, loyal customers, dedicated Board of Directors, the Management and staff of our Bank.

The fiscal year under consideration is an exciting one, wherein the Bank exhibited remarkable achievements despite the challenges that the business environment saw at national as well as global level.

In the fiscal year 2018/19, the Bank raised an incremental deposit of Birr 4.1 billion where the total deposit stood at Birr 14.9 billion. The Bank's total deposit depicted a growth of 38 percent compared with last year's total deposit of Birr 10.8 billion. Effective resource mobilization strategy employed coupled with results of branch expansion are the major factors for the steady growth of the Bank's local resource mobilization. On the other hand, the Bank mobilized USD 161.7 million recording a 49 percent growth compared with the previous year same period performance of USD 108.5 million.

In the financial year 2018/19, as part of the Bank's endeavors to expanding service outlets, 18 (eighteen) new branches were opened and a number of digital financial services were also launched in a bid to bolstering customer convenience through broader networking.

At the end of the reporting period, our Bank's outstanding loan stock reached Birr 10.2 billion from previous year's position of Birr 7.2 billion escalating by Birr 3.02 billion. Steady annual growth of our outstanding loan is a clear indication for the promising growth of our Bank's capacity in providing finance for various sectors of the economy. The NPLs ratio to the total outstanding loans and advances stood at 3.55 percent, which is kept well below NBE's standard of 5 percent attesting that the Bank's asset quality is being well managed. At the end of June 2019, the total asset of the Bank stood at Birr 19.2 billion. This is a surge of Birr 5.1 billion or 36.3 percent increase over the previous year.

Our Bank saw a profit before tax growth of 41.2 percent by registering Birr 580.1 million and attained earnings per share Birr 246.5 with par value of Birr 1000. Throughout the financial year, our Bank managed to maintain robust and stable liquidity position, which is greatly imperative to banks for generating sustainable revenue.

Our world is changing faster than ever due mainly to digital technologies and they have already revolutionized the way services are rendered. To this end, the Bank is working on expanding its digital channels by introducing various applications that enhances better convenience and quality service experience to customers.

Our Bank has more than 657 thousand account holders of which 108,771 are card holders and 108,680 are mobile service subscribers. Mobile top-up, application based mobile banking, internet banking and MasterCard were embarked in the captioned fiscal year whereas agency banking, school pay system integration and VISA are on pipeline to be launched in the coming financial year.

As regards to ensuring quality customer service, the Bank launched among many other tasks, a hot telephone lines that are proved to be pretty instrumental to closely attend customers complaints and grievances.

During the fiscal year in caption, we have successfully converted and transited from IAS 39 to IFRS 9. This was done with the support of a Consultant [KPMG], as hired and contracted by the Ethiopian Bank's Association (EBA). Implementation of IFRS 9 is believed to enhance the credibility of the financial reporting especially with international business community.

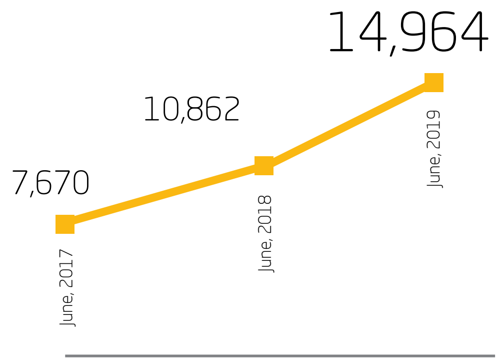
Our Bank is celebrating its 10th anniversary. Over the course of the years, the Bank pursued its mission through the combined and passionate efforts exerted by the entire community of the Bank, where the journey to success is visibly drawn up. We are rebranding our look to guide us into our promising future, and our logo saw considerable departure from the past, yet preserving our core institutional values which are truly inspirational.

Finally, I would like to appreciate the Board of Directors, the Management and the entire Staff of the Bank for being part of our continued success over the years. We greatly appreciate and value the hard work and relentless dedication which remain to be invaluable ingredient for realizations of our corporate objectives.

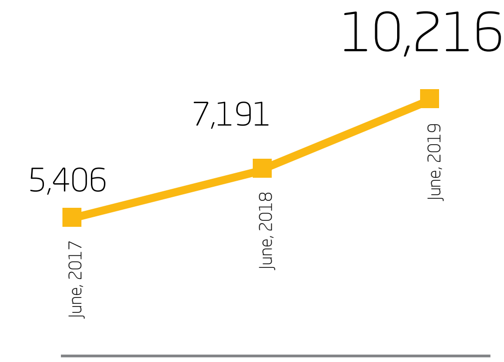
Thank you !

Abraham Alaro

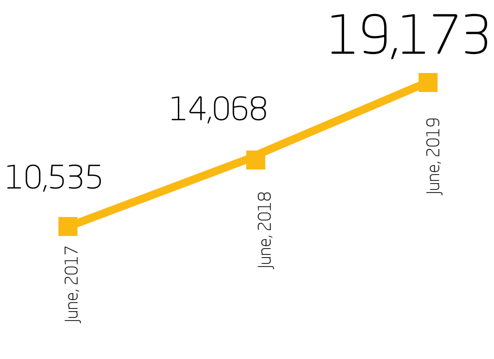
Performance Summary



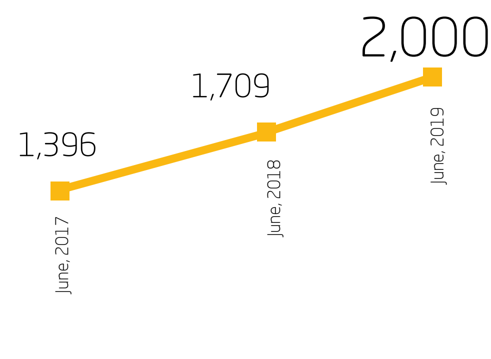
Total Deposit (in millions)



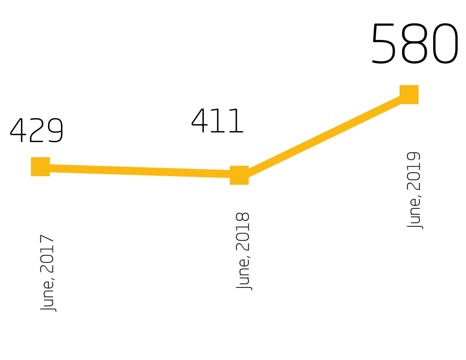
Outstanding Loan (in millions)



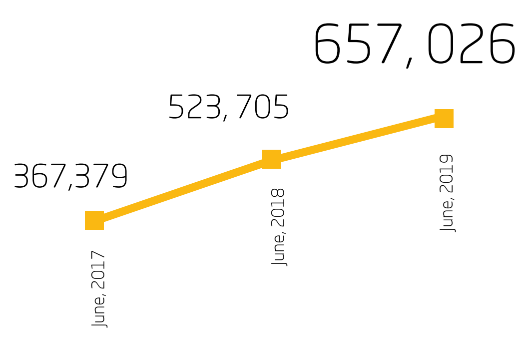
Total Asset (in millions)



Paid-up Capital (in millions)



Gross Profit (in millions)



No of Depositors

Major Performance Highlights

1. Major Undertaking of 2018/19 F.Y.

The global economic environment experienced a mixed and volatile changes in the year 2018/19. Increase in trade tensions, tariff hikes, and volatility in commodity prices eventually weakening the demand for Sub-Saharan Africa's commodity exports; tightening of financial conditions, and higher policy uncertainty across many economies; growing political tension amongst pillar economies all summed up intensified economic volatility and policy uncertainty vastly affecting business sentiment whereby slowing investment and GDP growth. General picture of the global economy reflected slowdown in economic growth in the second half of 2018 and in the first half of 2019. The slowdown is reflected in the world's major economies, the consequence of which indirectly affected least developed countries.

Real GDP growth of Ethiopia still remained strong, mainly attributed by growth in services, in agriculture and industrial sectors although the annual average headline inflation remained high. Yet, merchandise export earnings declined over last year due to lower earnings from export of major commodities like coffee, pulses and live animals. In the last fiscal year, Ethiopian economy has weakened in some of the important variables compared to preceding periods. Slowdown in construction due to foreign exchange shortages and higher prices of imported construction materials; higher public debt; elevated uncertainty associated with conflicts strains on public finances, raising expenditure and lowering revenue are mentioned as the major contributors.

On the positive side, there is considerable global anticipation to benefit from economic liberalization in which the government reform measures declared transfer of the giant business pillars in the private sector.

Berhan Bank evolved with the aforementioned changes fine-tuning strategies responsive of the external environmental deviations at the same time undertaking continuous improvements to eventually sustaining its growth.

In the year 2018/19, the Bank made several Digital Financial Services operational such as Mobile top-up, App based mobile banking, Internet banking and MasterCard. Further, the Bank has undertaken a conversion project, which is part of the IFRS implementation, in order to adopt the IFRS 9 Financial Instruments replacing the previous IAS 39 as issued by the International Accounting Standards Board (IASB) in its financial reporting contracting KPMG which is contracted by Ethiopian Banker's Association, to assist the adoption.

On the other hand, to enhance the foreign currency mobilization, lottery project which covered MTO and cash selling customers was implemented. However, particularly political happenings and economic instability of the country was the prevalent challenge for both local and foreign resource mobilization.

2. Operational Performance

2.1 Deposit Mobilization

Berhan Bank mobilized a total deposit of Birr 4.1 billion in the financial year 2018/19 increasing the deposit stock to Birr 14.9 billion from preceding year's Birr 10.9 billion position. As always, the largest share is taken by saving deposit followed by demand deposit. With an aim of enhancing and reinforcing the resource mobilization undertakings, the Bank has launched several e-banking products and services on top of expanding its branch networks in resource rich regions of the country. Besides, the number of account holders has reached 657,026.

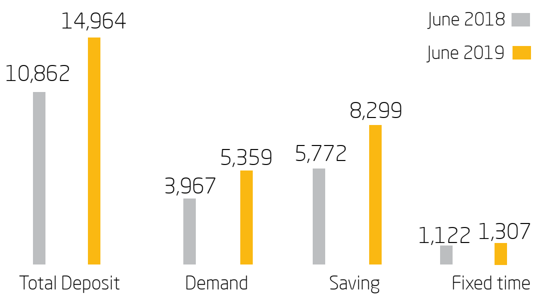


Figure 1: Breakdown of Deposit by Type in millions of Birr

2.2 Loan and Advances

In the year 2018/19, the Bank's outstanding loan stock reached Birr 10.2 billion from previous year's position of Birr 7.2 billion mounting by Birr 3.02 billion within the year under review. In terms of economic sector, significant growth was registered in almost all economy sectors wherein the principal portions are taken by domestic trade services and building & construction. Besides, the Bank's non-performing loans (NPLs) at the end of the year stood at 3.55 percent.

2.3 International Banking

The Bank mobilized USD 161.7 million in the 2018/19 financial year improving from prior year USD 108.5 million by 49 percent. The allocation of foreign currency by NBE at the end of fourth quarter to private banks had positive contribution in easing the shortage and partly addressing the demand of the market.

On the other hand, to improve the foreign currency mobilization, the Bank was actively engaged in sealing a solid relationship with additional correspondent banks enhancing service quality, strengthening relationship with cooperate customers with foreign currency potential. Besides, implementation of lottery project targeting money transfer and cash purchase has also contributed to the FCY mobilization effort.

3. Financial Performance

3.1 Assets

The total asset of the Bank at the end of 2018/19 financial year positioned at Birr 19.2 billion growing from prior year's position of Birr 14.1 billion by 36.3 percent primarily due to the growth of the Bank's loan and advances stock and NBE bills.

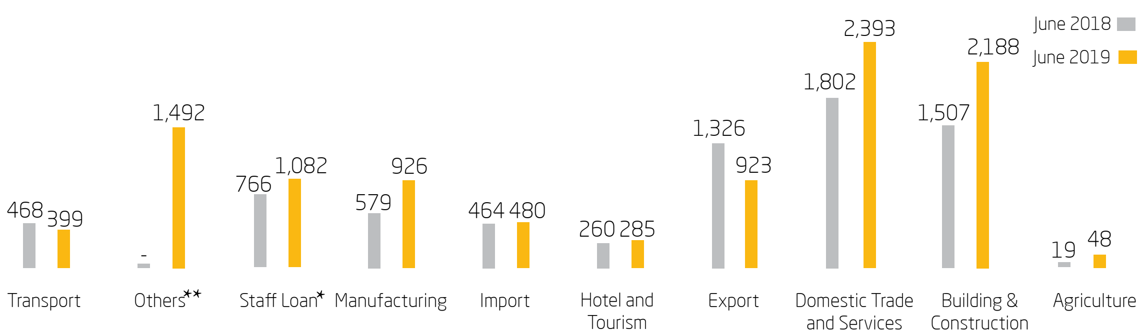


Figure 2: Breakdown of Loan and Advances in millions of Birr

* Includes personal loan

** Includes pre-shipment, overdraft and merchandise loans

3.2 Capital

The paid up capital of the Bank at the end of 2018/19 fiscal year reached Birr 2 billion from Birr 1.7 billion of previous year's position. The Bank was successful in attaining National Bank of Ethiopia (NBE's) capital requirement of Birr 2 billion on or before end of 2019/20 fiscal year ahead of the due time. Moreover, the Bank's total capital stood at Birr 2.8 billion at the end of 2018/19 financial year growing by 27.0 percent from last year's position of Birr 2.2 billion. Besides, the Banks shareholders number is enumerated at 14,906 at the end of the year.

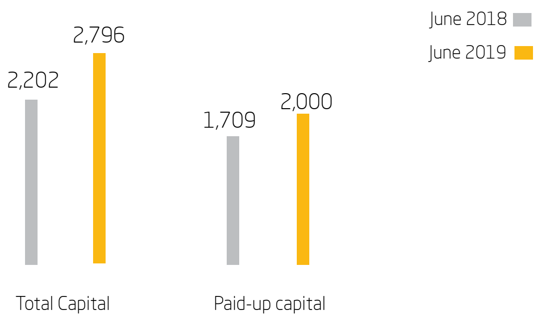


Figure 3: Composition of Capital in millions of Birr

3.3 Income

In the financial year 2018/19, the Bank earned a total income of Birr 2.2 billion exceeding last year's income by 42.6 percent. Likewise, both interest and non-interest income surpassed prior year's performance by 38.0 and 54.2 percent respectively. In terms of percentage contribution to total income, interest income takes a share of 69.6 percent wherein non-interest income takes 30.4 percentage share.

3.4 Expenses

The Bank incurred an expense of Birr 1.6 billion in the year 2018/19 depicting an increment of 43.1 percent from prior year's total expense. Interest expense grew by 45 percent while non-interest expense grew by 41.9 percent compared to previous year's expense.

With regards to percentage share, non-interest expense takes the lions share with 62.8 percent while interest expense takes 37.2 percent of the total expense.

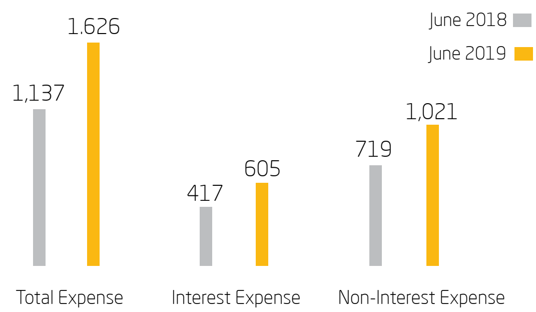


Figure 5: Composition of Expenses in millions of Birr

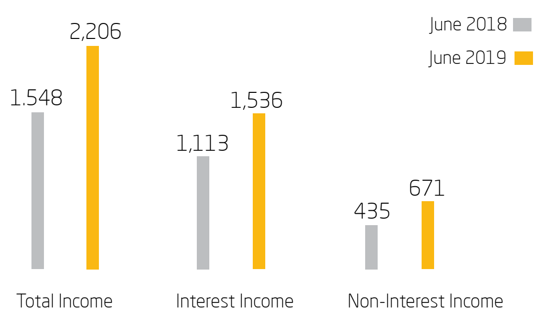


Figure 4: Composition of Income in millions of Birr

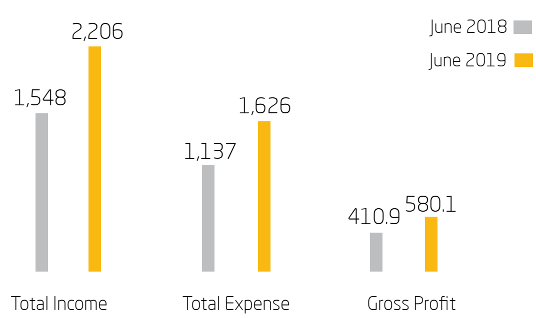


Figure 6: Composition of Gross Profit in millions of Birr

3.5 Profit

In the financial year 2018/19, the Bank earned a total profit before tax of Birr 580.1 million surpassing last year's profit by Birr 169.1 million or 41.2 percent. This outstanding performance was registered due to relentless efforts exerted by all stakeholders of the Bank, clutching opportunities and surpassing obstacles throughout the financial year.

3.6 Performance Ratio

At the end of 2018/19 financial year, the Bank's loan to deposit ratio (LDR) stood at 68.3 percent and return on asset (ROA) stood at 3.5 percent. Further, the Bank's earnings per share stood at 24.65 percent while the non-performing loans ratio (NPLs) positioned at 3.5 percent at the end of the financial year.

4. Human Resources

The Bank's total number of staff at the end of June 2019 reached 3,853 growing by 616 new employees or 19 percent from June 2018. Of the total employees, 65 percent are male and 35 percent are female.

In the financial year, the Bank has trained 3,033 employees on several training programs to enhance the customer service quality, equipping on new products & services, enriching operational capabilities as well as improving commitment & motivation of its employees. Besides, of the total trained employees, 162 employees are under educational assistance program of the Bank who are attending undergraduate and below programs in non-business hours.

5. Branch Expansion

With the aim of creating proximity and diversifying accessibility options to its customers as well as expanding outlets of resource mobilization, the Bank has expanded its branch network in metropolis and outlying areas of the country. Subsequently, the Bank's number of branches reached 200 at the end of 2018/19 financial year opening 18 new branches wherein 7 are in outlying areas and 11 are in metropolis.

6. Information Technology

Advanced technology enables a bank to differentiate its service quality from the other competitive banks. With an aim of copping up the ever-evolving customer needs, the Bank has fully completed construction of a new data center and built foundation for subsequent projects. Following the completion of the Data Center Project, major upgrading on the Core Banking System (CBS) were undertaken in addition to enhancements made to make the system compatible with new digital financial products and services, expanding customer base and networking requirements of branch expansion. Further, in the year under review, the data migration from the old to the new data center was completed without any significant interruption on business operations of the Bank.

7. Digital Financial Services

Adoption of Digital Financial Service is alleged to be a sturdy vehicle to creating customer convenience in return diversifying income bases by attracting potential customers. Subsequently, the Bank, in the period under review, has intensively engaged in increasing service users of the existing channels to address consumer needs. What's more, the Bank has embarked on different digital financial products and services such as Mobile top-up, App based mobile banking, Internet banking and MasterCard. Further, Agency banking, School Pay system integration and VISA acquiring business are on progress projects. Considering the importance of awareness creation on digital financial services, training program were utilized as an entry point opportunity.

8. 10th Year Anniversary Celebration

After such fruitful journeys of fewer years, Berhan has now turning 10 years. One can easily witness the Bank's growing customer trust, transparent business operations, integrity based services it has introduced to the business and growth strategy it has formulated within the 10 years. It, indeed, can be accentuated that the Bank has been an exemplary operating business without compromising integrity. The Bank celebrates these fruitful years with its key stakeholders to commemorate where the essence of the Bank started, recognized its customers who unwaveringly walked the high and low roads since its emergence, acknowledged its leadership, staff and founding Board members.

The celebration of the past ten year's journey has conveyed another milestone to be set forth. Accordingly, the Bank has intended to rebrand itself in yet well-articulated and transcended way. To realize this initiative, recruiting a renowned expert in the area, the 'Rebranding Project' was implemented which called for a detailed search of the Bank's inherent philosophy, integration, analysis and synthesis of those underlying philosophy thereby letting it redefine it to a heightened level.

With this determination, the new logo is born and will be communicate to key stakeholders alongside the 10th Anniversary celebration of the Bank. Thus, the Bank will be symbolized with the new logo for years yet to come.

9. Head Quarters Building Acquisition

Since its establishment, the Bank has been searching multiple opportunities to build its own head quarter. It has been at the top of the Bank's agenda particularly in the past few years, however, it has been delayed due to several contributing factors. In the year under review, the Bank was in the process ceiling a deal to acquire a land which is expected to be within 2019/20 financial year. This would be commendable accomplishment to the Bank mounting its asset value in the years ahead.

10. Corporate Social Responsibility

The Bank has been engaged in discharging its Corporate Social Responsibility since its establishment. In the year 2018/19, the Bank participated in the project 'Beautifying Sheger', a project planned to beautifying the Addis Ababa City by rehabilitating rivers crossing the city and developing riversides for recreational purpose. Moreover, following the requests of various regional states to help the victims of the internally displaced people, the Bank has also made a financial donation to the region. The Bank, in the years ahead, will continue to demonstrate its corporate citizenship participating in other philanthropic activities.

11. Future Plan

The Bank has selected the following critical factors to be implemented in the year ahead

- Strengthening resource mobilization;
- Enhancing customer service quality;
- Asset quality management;
- Augmenting digital financial services; and
- Enforcing strong organizational culture and developing workforce that delivers.

Berhan Bank S.C. IFRS Financial Statements 30-June-2019

Company registration number

BL/AA/2/0002442/2005

Directors *(As of July 1, 2019)*

Ato Gumachew Kussie	Chairperson	Appointed on 09 Feb 2018
Dr. Nardos Berehanu	V/Chairperson	Appointed on 09 Feb 2018
Arc. Daniel Assefa	Member	Appointed on 09 Feb 2018
Ato Mulatu Belachew	Member	Appointed on 09 Feb 2018
Dr Fasil Nahum	Member	Appointed on 09 Feb 2018
W/o Meron Gezahegne	Member	Appointed on 09 Feb 2018
W/o Amarech Bekalo	Member	Appointed on 09 Feb 2018
Dr. Aynalem Abaynehe	Member	Appointed on 09 Feb 2018
Ato Alemayehu Melesse	Member	Appointed on 09 Feb 2018
Ato Eligo Legesse	Member	Appointed on 09 Feb 2018

Executive management *(As of July 1, 2019)*

Abraham Alaro Alambo	President	Appointed on 19-Dec-2014
Ermias Tefera Showel	VP- Corporate Strategy and Resource Mobilization	Appointed on 01-Mar-2018
Solomon Assefa Hailu	VP- Customer Service and Quality Assurance	Appointed on 01-Mar-2018
Bethlehem Getachew Metaferia	VP-Corporate Service	Appointed on 01-Jan-2018
Amanuel Tadese W/Gebriel	VP-Operation	Appointed on 01-Mar-2018
Tadesse Hatiya Oge	Executive Assistant to the President	Appointed on 31-Mar-2018
Fikadu Assefa Kebede	Area Manager	Appointed on 01-Mar-2018
Daniel G/Medihin Kahsay	Area Manager	Appointed on 01-Mar-2018
Dereje Getaneh Tesema	Area Manager	Appointed on 01-Mar-2018
Sirak Amare Shiferaw	Area Manager	Appointed on 01-Mar-2018
Solomon Ayalew Legesse	Area Manager	Appointed on 01-Mar-2018
Yared Aguade Wubneh	Director- Engineering & Valuation Department	Appointed on 28-Sep-2015
Wale Yirga Yigzaw	Director- Resorce Mobilization Department	Appointed on 01-Mar-2018
Kidist Abreham Kidane	Director-International Banking Department	Appointed on 01-Mar-2018
Shimelis Tesfaye Reta	Director- Human Resource Operation and Development Department	Appointed on 01-Mar-2018
Elsa Ketema Gebre	Director-Facility Management Department	Appointed on 01-Mar-2018
Bereket Teketel Wachamo	Director-Business Development and Intelligence Department	Appointed on 01-July-2018
Binyam Mesfin Demeke	Director- Marketing and Corporate Communication Department	Appointed on 01-Mar-2018
Masresha H/Michael Gonfa	Director-Corporate Customer & Relationship Department	Appointed on 01-Mar-2017
Semenawit Abadi Kenaw	Director-Strategic Planning and Performance Appraisal Dep.	Appointed on 01-Mar-2017
Thomas Desalegn Beyene	Director- Transformation and Change Management	Appointed on 01-Mar-2018

Desalegn Fissehatsion Altaseb	Director - Finance and Accounts Department	Appointed on 29-Jan-2014
Bayissa Milkessa Filla	Director- Legal Service and Loan Recovery Department	Appointed on 04-Aug-2015
Tesfaye Maru Abate	Director-Treasury and Investment Department	Appointed on 01-Mar-2018
Anteneh Mekonnen Maru	Director- Risk & Compliance Management Department	Appointed on 23-Nov-2016
Wossen Alemeye Liyew	Chief Information Officer	Appointed on 18-Apr-2016
Sehin Tsige Abebe	Director - Internal Audit Department	Appointed on 01-Aug-2017
Dagmawi Kasahun Mengesha	Director- Service Outlate and Standardization Department	Appointed on 01-Mar-2018
Million Zeleke Tessema	Director-Credit Analysis and Appraisal Department	Appointed on 01-July-2018
Tihetina Abebe Gebere	Deputy Director-E-payment Department	Appointed on 01-July-2018
Feyera Ejeta Gurmessa	Deputy Director-Digital Financial Service	Appointed on 31-Oct-2018
Tilahun Endris Seid	A/Director- Credit Follow up & Portfolio Management Department	Appointed on 10-APr-2019

Independent Auditor

Tay Authorized Accountants & Auditors
Wengelawit Tadesse Building 1st Floor
Ethio-China Friendship Street
P.O. Box 1335
Addis Ababa
Ethiopia

Corporate office

TK International Building
China - Africa Square
P.O Box 387 - 1110
Addis Ababa, Ethiopia

Company secretary

TK International building
China - Africa Square
P.O Box 387 - 1110
Addis Ababa, Ethiopia

Principal bankers

Bank 1:	COMMERZ BANK AG.60261 FRANKFURT AM MAIN,GERMANY Swift code: COBADEFF
Bank 2:	ECO BANK, PARIS EBI SA GROUPE Swift code: ECOCFRPP
Bank 3:	ECOBANK KENEYA LIMITED, NAIROBI KENEYA, Swift code: ECOCKENAXXX
Bank 4:	ODDO BHF AKTIENGESELLSCHAFT, FRANKFURT AM MAIN DE, Swift code: BHFBDEFF500
Bank 5:	CAC INTERNATIONAL BANK, DJIBOUTI DJ, Swift code: CACDDJJDXXX
Bank 6:	EXIM BANK(DJIBOUTI) S.A, DJIBOUTI DJ, Swift code: EXTNDJJDXXX

Berhan Bank S.C
Report of the Directors
For the period ended 30 June 2019

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

Incorporation and address

Berhan Bank S.C was incorporated in Ethiopia in October 2009 as a privately owned financial institution, and is domiciled in Ethiopia.

Principal activities

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

Results and dividends

The Bank's results for the year ended 30 June 2019 are set out on the Statement of profit or loss and other comprehensive income. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
Net operating income	1,526,852	1,084,424
Profit / (loss) before tax	580,053	410,934
Tax (charge) / credit	(122,128)	(83,088)
Profit / (loss) for the year	457,924	327,846
Other comprehensive profit / (loss) net of taxes	(17,149)	(16,726)
Total comprehensive profit / (loss) for the year	**440,775**	**311,120**

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

Ato Gumachew Kussie
Chairman of the Board of Directors
Addis Ababa, Ethiopia

Ato Abraham Alaro
President

Statement of Directors' Responsibilities
For the period ended 30 June 2019

In accordance with the Banking Business Proclamation No. 592/2008, the National Bank of Ethiopia (NBE) may direct the Bank to prepare financial statements in accordance with international financial statements standards, whether their designation changes or they are replaced, from time to time.

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles generally accepted in Ethiopia and in the manner required by the Commercial Code of Ethiopia of 1960, 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 as are necessary to:

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

b) Explain its transactions and financial position; and

c) Enable the 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 Bank's 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 of 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.

Signed on behalf of the Directors by:

Ato Gumachew Kussie
Chairman of the Board of Directors
Addis Ababa, Ethiopia

Ato Abraham Alaro
President

Independent Auditor's Report

Independent auditor's report
To the shareholders of Berhan Bank S.C

Opinion

We have audited the financial statements of Berhan Bank S.C, which comprise the statement of financial position as at 30 June 2019, and the related statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, the financial position of the Berhan Bank S.C as at 30 June 2019 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have no comments to make on the report of the Board of Directors of the Bank in so far as it relates to these financial statements and pursuant to Article 375 of the Commercial Code of Ethiopia 1960 recommend approval of these financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' code of Ethics for Professional Accounts (IESBA Code) together with the ethical requirmets that are relevant to our audit of the financil statments 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 Matters

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, and we do not provide a separate opinion on these matters.

During the financial year the bank has adopted several newly issued IFRS standards including IFRS 9 which had impact on comparative figures as well as opening balances of the previous year. Proper assessment and recognition of the impacts have been considered as key audit matters for our audit during the year. We obtained management's working for the assessment of the impact and evaluated the reasonableness of key assumptions and accuracy of the workings.

Responsibilities of the Management and those Charged with Governance for the Financial Statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of a Company's report that is free from material misstatement, 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 of accounting unless management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the project report as a whole is 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonable be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statement of the current period and are therefore the key audit matters. We describe these, matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr Tesfa Tadesse, MSc, FCCA.

TAY Authorized
Accountants & Auditors

Addis Ababa
November 20, 2019

Berhan Bank S.C
Statement of Profit or Loss and Other Comprehensive Income
For the period ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income	8	1,535,806	1,112,786
Interest expense	9	(605,036)	(417,346)
Net Interest Income		**930,770**	**695,440**
Fees and commission income	10	550,814	349,413
Fees and commission expense	10	(7,565)	(6,105)
Net Fee and Commission Income		**543,249**	**343,308**
Other operating income	11	119,660	85,558
Total Operating Income		**1,593,679**	**1,124,306**
Impairment losses on Financial Instruments	12	(61,334)	(25,179)
Impairment Loss on other Financial Assets	12	(5,493)	(14,703)
Net Operating Income		**1,526,852**	**1,084,424**
Personnel expenses	13	(622,858)	(438,751)
Depreciation of property and equipment	22	(32,610)	(28,907)
Amortisation of intangible assets	21	(1,390)	(484)
Other operating expenses	14	(289,941)	(205,348)
Total Operating Expenses		**(946,799)**	**(673,490)**
Profit Before Tax		**580,053**	**410,934**
Income tax expense	15	(122,128)	(83,088)
Profit for the Period		**457,924**	**327,846**
Other Comprehensive Income (OCI) Net of Income Tax			
Items that may be reclassified to profit or loss:			
Items that cannot be reclassified to profit or loss:			
Remeasurements of Defined Benefit Liability/Asset-Net of Tax	26	(24,571)	(16,726)
Movement in fair value reserve (FVOCI equity instruments)-Net of Tax	26	7,421	-
Total Comprehensive Income for the Year, Net of Tax		**440,775**	**311,120**
Profit Attributable to Equity Holders		**457,924**	**327,846**
Earnings per share of Birr 1,000			
Basic Earnings Per Share	28	**24.65**	**20.36**

The notes are an integral part of these financial statements.

Berhan Bank S.C

Statement of Financial Position

For the period ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
ASSETS			
Cash and Balances with Banks	**16a**	3,057,666	2,676,716
Due from Banks & Other Financial Institutions	**16b**	71,050	44,104
Loans and Advances to Customers	**17**	10,033,356	7,067,044
Equity Investments	**18b**	33,344	18,948
Bonds and Bills	**18a**	4,256,177	3,029,999
Other Assets	**19**	548,542	443,426
Inventory	**19b**	15,480	12,568
Non-Current Assets Held for Sale	**19c**	9,996	7,166
Investment Property - Building	**20**	3,045	2,758
Intangible Assets	**21**	12,326	1,111
Property and Equipment	**22**	365,819	215,914
Restricted Fund Balance	**16c**	754,000	542,000
Deferred Tax Assets	**15c**	11,754	6,224
Total Assets		**19,172,555**	**14,067,978**
LIABILITIES			
Due to Banks & Other Institutions	**23a**	16,854	27,323
Deposits from Customers	**23b**	14,964,280	10,861,680
Current Tax Liabilities	**15b**	140,070	68,219
Margins Held on Letters of Credit	**23b**	569,464	314,518
Other Liabilities	**23c**	527,475	492,088
Provisions	**23d**	89,095	58,624
Retirement Benefit Obligations	**23e**	69,354	43,848
Total Liabilities		**16,376,592**	**11,866,300**
EQUITY			
Share Capital	**24**	2,000,000	1,709,050
Retained Earnings	**25**	397,591	208,132
Legal Reserve	**26**	422,871	308,390
Other Reserve	**27**	(24,499)	(23,894)
Total Equity		**2,795,963**	**2,201,678**
Total Liabilities and Equity		**19,172,555**	**14,067,978**

The notes are an integral part of these financial statements.

The financial statements were approved and authorized for issue by the board of directors on 19-Nov-19 and were signed on its behalf by:

Ato Gumachew Kussie
Chairman of the Board of Directors
Addis Ababa, Ethiopia

Berhan International Bank S.C.

Ato Abraham Alaro
President

Berhan Bank S.C

Statement of Changes in Equity

For the period ended 30 June 2019

	Notes	Share capital Birr'000	Retained earnings Birr'000	Other reserves Birr'000	Legal reserve Birr'000	Total Birr'000
As at 1 July 2017		1,396,123	214,376	(1,706)	227,469	1,836,262
Profit for the period	22		327,846	-	-	327,846
Other comprehensive income:						-
Re-measurement gains on defined benefit plans	24			(22,188)		(22,188)
Total comprehensive income for the period			**327,846**		**-**	**327,846**
Transaction with owners in their capacity as owners :						
Contribution of equity net of transaction costs	21	312,927	-	-	-	312,927
Dividend provided for / paid	22	-	(261,464)	-	-	(261,464)
Deferred Tax adjustment	22	-	8,295	-		
Transfer to legal reserve	23	-	(80,921)	-	80,921	-
						-
Total		312,927	(6,244)	(22,188)	80,921	365,416
						-
As at 30 June 2018		**1,709,050**	**208,133**	**(23,894)**	**308,390**	**2,201,678**
IFRS 9 Day 1 adjustment	25	-	54,148	-		54,148
Restated Opening Balance 01-July-2018		**1,709,050**	**262,280**	**(23,894)**	**308,390**	**2,255,825**
Profit for the Period	25	-	457,924	-	-	457,924
Other Comprehensive Income:						-
Re-measurement Gains on Defined Benefit Plans	27	-	-	(11,207)	-	(11,207)
Movement in fair value reserve-equity instruments	27	-	-	10,602	-	10,602
Total Comprehensive Income for the Period			**457,924**	**(605)**	**-**	**457,319**
Transaction with owners in their capacity as owners :		-	-	-	-	-
Contribution of equity net of transaction costs	24	290,950	-	-	-	290,950
Dividend provided for / paid	25	-	(208,133)	-	-	(208,133)
Transfer to legal reserve	26	-	(114,481)	-	114,481	-
						-
Total		290,950	135,311	(605)	114,481	540,137
As at 30 June 2019		**2,000,000**	**397,591**	**(24,499)**	**422,871**	**2,795,963**

The notes are an integral part of these financial statements.

Berhan Bank S.C
Statement of Cash Flows
For the period ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash flows from operating activities			
Profit before tax		**580,053**	**410,934**
Adjustment for:			
Loan impairment charges	**12**	61,334	25,179
Impairment losses on other assets	**14**	5,493	14,192
Amortisation of intangible assets	**21**	1,390	484
Depreciation and impairment of property, plant and equipment	**22**	32,974	28,972
Impairment Loss(Gain) Asset Held for Sale	**19c**	(30)	320
Revaluation Gain - Investment Property	**20**	(287)	(196)
Allowance for Inventory Write-Down		32	(261)
Gain on Disposal of Property Plant And Equipment(net)		(137)	(374)
Cash Flow From Operation before Changes in Working Capital		**680,822**	**479,250**
Decrease (Increase) in Loans & Advances excluding provision	**17a**	(3,024,329)	(1,785,507)
Decrease (Increase) in Non-current asset held for sale	**19c**	(2,800)	4,111
Decrease (Increase) in Other Assets	**19**	(48,899)	(167,317)
Decrease (Increase) in Restricted Fund Balances	**16c**	(212,000)	(166,000)
Increase (Decrease) in Deposits	**23b**	4,102,600	3,191,572
Increase (Decrease) in Margin Held Account	**23b**	254,946	(53,893)
Increase (Decrease) in Other Liabilities	**23c**	34,949	109,874
Decrease (Increase) Inventory	**19b**	(2,944)	(3,745)
Decrease (Increase) Due from Banks & Other Financial Institutions	**16b**	(26,946)	59,546
Increase (Decrease) in Provision	**22d**	30,471	10,770
Decrease (Increase) Due to Banks & Other Institutions	**23a**	(10,471)	(2,144)
Increase (Decrease) Retirement benefit obligations-Charge for the year	**23e**	14,299	6,282
Cash Generated From Operation			
Withholding Tax Paid		-	-
Profit tax Paid	**15b**	(68,219)	(122,793)
Net Cash flow from Operating Activities		**1,721,479**	**1,560,006**
Cash Flow From Investing Activities			
Purchase of Fixed Assets	**22**	(183,755)	(64,025)
Purchase of Intangible Assets	**21**	(12,605)	-
Investment in NBE Bills	**18**	(1,226,391)	(824,334)
Investment in Shares	**18**	(1,530)	(727)
Proceeds from sale of property and equipment		1,013	1,053
Net Cash flow from Investing Activities		***(1,423,268)***	***(888,033)***
Cash Flow From Financing Activities			
Ordinary Shares Issued	**24**	290,950	312,928
Dividends paid	**25**	(208,132)	(261,464)
Increase (Decrease) Borrowings	**23b**	-	(75,000)
Net Cash flow from Financing Activities		***82,818***	***(23,536)***
Changes in Cash and Cash Equivalents		381,029	648,436
Cash and Cash Equivalent at the Beginning of the Year		2,676,716	2,028,280
Cash Balance at end of the year		3,057,745	2,676,716

The notes are an integral part of these financial statements.

1 General Information

Berhan Bank SC ("Berhan" or the "Bank") is a private commercial Bank domicile in Ethiopia. The Bank was registered and licensed by the National Bank of Ethiopia on 27 June 2009 in accordance with Article 304 of the Commercial Code of Ethiopia with the objective of operating in the banking industry. The Bank's registered office is at:

Bole Dildiye TK International Building

P.O.Box 387 Code 1110

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 client's base in Ethiopian Market.

2 Basis of Accounting

These consolidated financial statements have been prepared in accordance with IFRS. They were authorized for issue by the Bank's Board of Directors on 19-Nov-19.

This is the first set of the Banks's annual financial statements in which IFRS 9 Financial Instruments has been applied. Changes to significant accounting policies are described in Note 5.

3 Functional and Presentation Currency

These consolidated financial statements are presented in ETB, which is the Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

4 Use of Judgements, Assumptions and Estimates

In preparing the financial statements, management has made judgements, estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2019 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

- Determination of the fair value of financial instruments with significant unobservable inputs.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition of deferred tax assets: availability of future taxable profit against carry-forward tax losses can be used.
- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

5 Summary of significant accounting policies

5.1 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.

5.2 Basis of preparation

The financial statements for the period ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

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

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept except the following:

- Fair value through other comprehensive income and fair value through profit and loss, financial assets and financial liabilities (including derivative instruments) and investment properties measured at fair value;
- Assets held for sale - measured at fair value less cost of disposal; and
- The liability for defined benefit obligations recognised at the present value of the defined benefit obligation less the fair value of the plan assets and plan assets measured at fair value

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 4.

5.2.1 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.

5.2.2 Changes in Accounting Policies and Disclosures

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Bank has adopted IFRS 9 and IFRS 15 from 1 July 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- Additional disclosures related to IFRS 9; and
- Additional disclosures related to IFRS 15.

IFRS 9 - Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

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 recognized 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 recognized 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.

Adoption of the IFRS 15 did not have any significant impact on the bank. The bank has elected to adopt IFRS 15 using the cumulative effect method, under which the comparative information has not been restated.

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

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 recognize 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 recognize 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.

5.3 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 (ETB).

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 recognized 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. The closing rates used for assets and liabilities are selling rate and buying rate respectively.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income (available-for-sale as at June 2018) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized 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 recognized 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 fair value through other comprehensive income, are included in other comprehensive income.

5.4 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, 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 and advances, fees and commissions, and other services.

5.4.1 Interest and Similar Income and Expense

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

In millions of ETB	2019	2018
Interest income	1,535,806	1,112,786
Interest expense	(605,036)	(417,346)
Net interest income	**930,770**	**695,440**

Effective interest rate

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense were recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018).

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Presentation

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

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

5.4.2 Fees and Commission

Fees and commission income and expenses that are integral to the effective interest rate on government bills and bonds are included in the measurement of the effective interest rate. Other fees and commission income (for example commission on purchase orders, Cash Payment Orders (CPOs), loan commitment fees etc.) are recognized as the related services performed.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

5.4.3 Dividend Income

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

5.4.4 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 recognized in the income statement.

The monetary assets and liabilities include financial assets within the correspondent banks, foreign currency deposits received and other liabilities held on behalf of third parties.

5.5 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.

The bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the bank becomes a party to the contractual provisions of the instrument.

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

5.5.1 Classification of Financial Assets and Financial Liabilities

i) Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The Bank shall measure a financial asset at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). `

A debt instrument shall be measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9 fair value changes are generally presented as follows: – the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

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

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

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

Ethiopia does not have an active equity and securities market. The valuation of the equity investments were computed based on the price to book multiple valuation and the Enterprise Value(EV)/Earnings Before Interest, Tax, Depreciation and Amortization(EBITDA) multiple valuation methods.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Transition from IAS 39 to IFRS 9

The Bank used the exemption not to restate comparative periods. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as: – Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 July 2019. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application;

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

- The designation of investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Business model assessment

The Bank shall make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis shall be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

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

ii) Financial liabilities

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

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

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

The following table provides a reconciliation of IFRS 9 and IAS 39 classification of financial assets and liabilities;

Birr'000	**30-Jun-18**					**1-Jul-18**
Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**Re-classification**	**Re-measurement**	**New carrying amount under IFRS 9**
Cash and balances with banks	Loans and receivables	Amortised cost	2,676,716	-	(93)	2,676,623
Loans and advances to customers	Loans and receivables	Amortised cost	7,101,900	-	43,738	7,145,638
Investment securities: Available for sale	Available for sale	FVOCI	18,948	-	6,291	25,239
Investment securities: Loans and receivables	Loans and receivables/Held to maturity	Amortised cost	3,029,999	-	(151)	3,029,848
Other financial assets at amortised cost	Loans and receivables	Amortised cost	238,943	-	(2,582)	236,361
Total financial assets			**13,066,506**	**-**	**47,202**	**13,113,708**
Financial liabilities						
Due to Banks & Other Institutions	Amortised cost	Amortised cost	27,333	-	-	27,333
Deposits from customers	Amortised cost	Amortised cost	10,861,680	-	-	10,861,680
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	Amortised cost	999,878	-	480	999,878
Margins held on letters of credit	Amortised cost	Amortised cost	534,149	-	27	534,149
Total financial liabilities			**12,395,707**	**-**	**507**	**12,423,040**

The Bank's accounting policies on the classification of financial instruments under IFRS 9 resulted in the reclassifications set out in the table above and explained below.

On the adoption of IFRS 9, certain financial assets such as cash and cash equivalents, loans and advances to customers, and treasury bills and bonds (NBE bills and government bonds) were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortized cost under IFRS 9 was as if those assets were accounted for at amortized cost from their inception.

Further equity investment securities were reclassified out available-for-sale categories to FVOCI at their then fair values. The carrying amount of those assets was adjusted so that their amortized cost under IFRS 9 was as if those assets were accounted for at amortized cost from their inception. On the adoption of IFRS 9, other financial assets such as accounts receivables, uncleared effects – both local and foreign and guarantee for overseas employment agencies were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortized cost under IFRS 9 was as if those assets were accounted for at amortized cost from their inception.

The following table summarizes the impact of transition to IFRS 9 on the opening balance of retained earnings

In Birr'000	**Impact of adopting IFRS 9 at 1 July 2018**
Fair value reserve	
Closing balance under IAS 39 (30 June 2018)	(2,264)
Reclassification of investment securities (equity) measured at cost from available-for- sale to FVOCI	(554)
Related tax	-
Adjusted opening balance under IFRS 9 (1 July 2018)	**(554)**
Retained earnings	
Closing balance under IAS 39 (30 June 2018)	208,133
Recognition of expected credit losses under IFRS 9 on loans and advances to customers (on balance sheet)	45,319
Recognition of expected credit losses under IFRS 9 on loan commitments and financial guarantee contracts (off balance sheet)	(507)
Recognition of expected credit losses under IFRS 9 on other financial assets such as bank balances and investment securities	2,019
Recognition of expected credit losses under IFRS 9 on other financial assets such as receivables	19,730
Related tax	(12,414)
Adjusted opening balance under IFRS 9 (1 July 2018)	**262,280**

Derecognition of Financial Assets

The bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the bank is recognized as a separate asset or liability.

The bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

In transactions in which the bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Derecognition of Financial Liabilities

The bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modifications of financial assets and financial liabilities

i) Financial assets

If the terms of a financial asset are modified, then the Bank shall evaluate whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognized and a new financial asset shall be recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it shall first consider whether a portion of the asset should be written off before the modification takes place.

Where the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank shall first recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and shall be amortized over the remaining term of the modified financial asset. Where such a modification is carried out because of financial difficulties of the borrower, then the gain or loss shall be presented together with impairment losses. In other cases, it shall be presented as interest income calculated using the effective interest rate method.

ii) Financial liabilities

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

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

Write-off

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

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

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

Renegotiated Loans

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

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

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 recognized 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.

5.5.2 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 recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Or if the Bank may enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as Bankruptcy or the termination of a contract.

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

5.6 Cash and Cash Equivalents

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

5.7 Property and Equipment

Property 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 and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in income statement as incurred.

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

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

Asset category	**Years**	**Residual values**	**Remark**
Building	50	5% of cost	
Motor Vehicle	10	20% of cost	
Computer and Related items	7	2% of cost	Computer and accessories are included Computer, UPS, Switch, Patch panel---
Intangible - Software	6	0	
Furniture and Fitting			
Medium lived Furniture and Fittings	10	4% of cost	Included chair, table, partition, cage , counter -----
Long Lived Furniture and Fittings	20	1% of cost	Vault /strong room
Equipment:			
Short lived Equipment	5	2% of cost	Counting Machine, photocopy, FCY, Display and detector, Printer, Scanner and electronic related items ...
Medium lived Equipment	10	1% of cost	Generator ,ATM and Others
Long lived equipment	20	1% of cost	Cash safe

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 recognized is derecognized upon disposal or when no future economic benefits are expected from its use or 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 derecognized.

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

5.8 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 amortization and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalized development costs, are not capitalized 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 amortized over the useful economic life. The amortization period and the amortization 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 amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortization is calculated using the straight–line method as below:

Description	**Years**	**Residual value**
Software	6	Nil

5.9 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 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 recognized 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 capitalized 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 derecognized.

Investment properties are derecognized 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.

5.10 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 recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized 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 recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized 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 recognized.

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 coordinated 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.

5.11 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 fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The value in use of the impaired assets is considered to be close its fair value less cost of disposal because the assets are either fully depreciated or they will be used for shorter period than their respective normal useful lives. In determining fair value less costs of disposal, recent market transactions are taken into account.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the income statement.

5.12 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 amortized over the period in which the service is to be enjoyed.

(b) Other Receivables

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

(c) Prepaid Staff Benefits

The Bank gives loans to its staff members at below market rates of interest. Under IFRS 9, such loans must be recognized at their fair value on the inception date. The fair value is determined on inception date as the present value of all the future cash receipts (instalments) from the staff members using the prevailing market rate of interest as the discounting factor. The market rate was determined by reference to what the staff members would have been charged to access a similar loan facility from the financial market (similar in terms of currency, term, type of interest rate and other factors). The market rate was set by the Ethiopian Bankers Association. Accordingly, 9.5% was used for mortgage loans for the year 2017/18 and 2018/19 ; and for other loan types the average rate of 10.58% and 12.03% were used for the year 2017/18 and 2018/19 respectively.

The difference between the fair valued amount of the loan and the original loan amount is recognized as employee benefit. However, IAS 19 does not give specific guidelines on the treatment of prepaid employee benefit so the general guidelines of conceptual framework would apply.

Therefore, to recognize the prepaid employee benefit on inception date of the loan, the bank should consider the nature of the loan i.e. does the interest rate revert back to market interest rate or below the market interest rate when the employee leaves the bank?

If the interest rate reverts back to market interest rate, this means that the employee benefit has not been earned and the bank expects future economic benefits. Therefore, the prepaid employee benefit would be capitalized as an asset and amortized throughout the life of the loan based on the conceptual framework definition of an asset.

If the interest rate still remains below the market interest rate, this means that the employee benefit has been fully earned and the bank does not expect future economic benefits. Therefore, the prepaid employee benefit would be expensed immediately.

5.13 Fair Value Measurement

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 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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:

i) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

ii) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

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.

5.14 Employee Benefits

The Bank operates various post-employment benefit schemes, including both defined benefit and defined contribution plans and other long-term employee benefits.

(a) Defined Contribution Plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as personnel expenses in profit or loss. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Bank operates two defined contribution plans;

i) Pension scheme in line with the provisions of Ethiopian pension of private organization employee's 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 6% and 12% 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 Banks's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(c) Other Long-term Employee Benefits

The Banks's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(d) 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.

(e) Short-term Employee Benefits

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation such as bonus payments.

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

5.15 Provisions

Provisions are recognized when there is 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 recognized 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 recognized as other operating expenses.

5.16 Structure of Share Capital

Authorized Share Capital = the maximum value of securities that the bank can legally issue.

Issued Shares = the total of the bank´s shares that are held by shareholders.

Outstanding shares = are those issued shares.

Ordinary shares = any shares that are not preferred shares and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders in proportion to their percentage ownership in the bank.

5.17 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 recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

5.18 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 recognized 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 recognized 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 realized or the deferred tax liability is settled.

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

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 tax 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 realize the asset and settle the liability simultaneously.

5.19 Inventories

Inventories are assets:

a) Held for sale in the ordinary course of business;

b) In the process of production for such sale; or

c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

In the case of Berhan bank inventories, definition (c) applies. IAS 2 Inventories contains the requirements on how to account for most types of inventory. The standard requires inventories to be measured at the lower of cost and net realizable value (NRV) and outlines acceptable methods of determining cost, including specific identification (in some cases), first-in first-out (FIFO) and weighted average cost. The bank use FIFO method for measuring its inventories.

5.20 Defined Benefits Liabilities

According to IAS 19, employee benefit liability and expense shall be recognized in the period in which the employee gives service and should be valued.

Accounting for defined benefit plans involves the following steps:

- Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior per
- iods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit.
- Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost because they may be settled many years after the employees render the related service.
- Determining amounts to be recognized in profit or loss: current service cost any past service cost and gain or loss on settlement.
- Recognize the net defined benefit liability (asset) in the statement of financial position. This means that Berhan bank's severance pay to its employees shall be recognized earlier than the actual payment. The benefits valued are the statutory severance benefits in Ethiopia, which provides a promised lump sum as a multiple of final weeks' average daily wages for each year of service to employees on leaving the bank after a minimum of five years' service and a retirement gratuity which pays a fixed multiple of salary on retirement (three months' salary for managerial staff and two months' salary for non-managerial staff).

6 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.

6.1 Judgements

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

i) Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding,

ii) Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition,

iii) Determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and,

iv) Selection and approval of models used to measure Expected Credit Loss (ECL)

6.2 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.

6.2.1 Impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:–

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

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

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

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

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. The difference between the cash flows due to the entity in accordance with the contract and the cash flows that the bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the bank expects to recover.

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- for debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognized in the fair value reserve.

6.2.2 Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

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

6.2.3 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. 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.

6.2.4 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

6.2.5 Development cost

The Bank capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

7 Financial Risk Management

7.1 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. Risk Management provides a comprehensive and dynamic framework for identifying, measuring, monitoring and managing financial and non-financial risks. When the quantitative data disclosed at the reporting date is not representative of the Bank's exposure to risk during the period, further information that is representative must be assisted in qualitative disclosures. 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.

7.1.1 Risk Management Structure

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Bank Asset and Liability Management Committee (ALCO), which is responsible for approving and monitoring Bank risk management policies.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

Credit Risk

Credit risk is the most important risk for the Bank's business defined as current or future risk on the financial result and capital arising from a counter party's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed. The exposure to this risk arises principally from retail and corporate lending activities, as well as activities related to off-balance sheet financial instruments (loan commitments, Letter of Guarantees and Letter of Credit).

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

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

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

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

Credit quality analysis

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

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

In Birr'000	**2019**				**2018**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to customers at amortised cost					
Stage 1 – Pass	9,473,693	-	-	9,473,693	6,713,242
Stage 2 – Special mention	-	325,636	-	325,636	291,382
Stage 3 - Non performing	-	-	416,445	416,445	200,003
Total gross exposure	9,473,693	325,636	416,445	10,215,774	7,204,627
Loss allowance	(32,422)	(5,644)	(80,677)	(118,743)	(102,727)
Interest in suspense	-	-	(12,447)	(12,447)	-
Staff Loan Market Interest Adjustment	(51,228)	-	-	(51,228)	(34,855)
Net carrying amount	**9,390,043**	**319,992**	**323,321**	**10,033,356**	**7,067,045**

In Birr'000		2019		
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	3,057,745	(79)	**3,057,666**
Investment securities (debt instruments)	12 Month ECL	4,256,390	(213)	**4,256,178**
Other receivables and financial assets	Lifetime ECL	213,417	(8,097)	**205,320**
Totals		**7,527,552**	**(8,389)**	**7,519,163**

In Birr'000		2018		
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	2,676,716	-	**2,676,716**
Investment securities (debt instruments)	12 Month ECL	3,029,999	-	**3,029,999**
Other receivables and financial assets	Lifetime ECL	238,943	-	**238,943**
Totals		**5,945,658**	-	**5,945,658**

Management of Credit Risk

The Board of Directors created the Bank Credit Committee for the oversight of credit risk. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for managing the Bank's credit risk, including the following.

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk: assesses all credit exposures, before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures)
- Developing and maintaining the Bank's risk grading's to categorize exposures according to the degree of risk of default. The current risk grading framework consists of 8 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews.
- Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
    - Initial approval, regular validation and back-testing of the models used;
    - Determining and monitoring significant increase in credit risk; and
    - Incorporation of forward-looking information.

- Regular reports on the credit quality of portfolios are provided, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due,

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data;

Definition of default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative: e.g. Breaches of covenant;
- Quantitative: e.g. Overdue status and non-payment on another obligation of the same issuer to the bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

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

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

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

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

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

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

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

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

	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317.4	349.1	384
GDP: GDP per capita, USD	836	928	1019
GDP EXPENDITURE: Exports of goods and services, USD per capita	54.9	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	179.8	213.8	260.3
EXCHANGE RATE: ETB/USD	29.23	31.1	33.15
GDP EXPENDITURE: Imports of goods and services, USDbn	16.6	16.9	17.1
FISCAL: Current expenditure, USDbn	7.8	8.3	8.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	485.3	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	296.3	326	358.6
DEBT: Government domestic debt, ETBbn	642.7	752	872.3
EXCHANGE RATE: Real effective exchange rate, index	123.13	121.01	117.74
GDP EXPENDITURE: Private final consumption, USDbn	58.9	66.2	73.5
STRATIFICATION: Household Spending, ETBbn	1707.6	1926.3	2149.3
FISCAL: Total revenue, USDbn	10.5	10.9	11.4
DEBT: Total government debt, USDbn	57	65.2	75.4

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

Modified financial assets

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

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

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

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

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

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

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

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

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

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

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

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

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- Credit risk grading;
- Collateral type;
- LTV ratio for retail mortgages;
- Date of initial recognition;
- Remaining term to maturity;
- Industry; and
- Geographic location of the borrower.

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

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Loss allowance

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

	2019			
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost (on balance sheet exposures)				
Balance as at 1 July 2018	**87,223**		**15,504**	**102,727**
Day one IFRS 9 transition adjustment	(64,078)	3,447	16,893	(43,738)
Adjusted balance at 1 July 2018	**23,145**	**3,447**	**32,397**	**58,989**
Transfer to stage 1 (12 months ECL)	5,289	(1,583)	(3,705)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	(587)	1,449	(861)	(0)
Transfer to stage 3 (Lifetime ECL credit impaired)	(809)	(464)	1,273	0
Net remeasurement of loss allowance	(6,324)	819	46,394	40,889
New financial assets originated or purchased	20,729	2,927	8,269	31,925
Financial assets derecognised	(9,020)	(951)	(3,090)	(13,061)
Balance as at 30 June 2019	**32,422**	**5,644**	**80,677**	**118,743**

	2019			
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments and financial guarantee contracts (off balance sheet exposures)				
Balance as at 1 July 2018	**-**	**-**	**-**	**-**
Day one IFRS 9 transition adjustment	507	-	-	**507**
Adjusted balance at 1 July 2018	**507**	**-**	**-**	**507**
Transfer to stage 1 (12 months ECL)	-	-	-	**-**
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	**-**
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	**-**
Net remeasurement of loss allowance	(68)	-	-	**(68)**
New financial assets originated or purchased	-	-	-	**-**
Financial assets derecognised	-	-	-	**-**
Balance as at 30 June 2019	**439**	**-**	**-**	**439**

The following table provides a reconciliation between:

Amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the ‘impairment losses on financial instruments’ line item in the consolidated statement of profit or loss and other comprehensive income.

	2019			
In Birr'000	**Cash and balances with banks**	**Investment securities (debt instruments)**	**Other receivables and financial assets**	**Total**
Other financial assets (debt instruments)				
Balance as at 1 July 2018	**-**	**-**	**-**	**-**
Day one IFRS 9 transition adjustment	93	151	2,582	2,827
Adjusted balance at 1 July 2018	**93**	**151**	**2,582**	**2,827**
Net remeasurement of loss allowance	(14)	61	5,514	5,562
Balance as at 30 June 2019	**79**	**213**	**8,097**	**8,389**
In Birr'000	**Loans and advances to customers at amortised cost**	**Loan commitments and financial guarantee contracts**	**Other financial assets**	**Total charge/(credit)**
Net remeasurement of loss allowance	40,889	281	5,562	46,731
New financial assets originated or purchased	31,925	1,017	-	32,942
Financial assets derecognised	(13,061)	(1,088)	-	(14,148)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Total	**59,753**	**210**	**5,562**	**65,525**

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans that were past due but not impaired

Loans that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the Bank believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

Credit Risk Measurement, Limits and Mitigation Policies

Initially, when approving loans and loan commitments, the authorized Credit Approval Committees assess creditworthiness of the clients depending on the type and size of the exposure and based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee for classification of assets and provisioning for potential losses, commitments and contingencies and it is mainly based on reports and analyses prepared by relevant organization units of the Bank.

The Risk Management Committee,

Boards of Directors are regularly informed of the credit risk that the Bank is exposed to. The Bank has an internal system of classification of customers whose main aim is determining their creditworthiness and evaluation of the acceptable level of credit risk in starting lending.

Classification of customers to which the Bank is exposed are reviewed at least annually. The Bank has implemented a system of early warning signals in order to timely identify any deterioration in the creditworthiness of the client and take appropriate action to mitigate credit risk.

The Bank employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises and inventory;
- Charges over financial instruments such as equity securities;
- Pledges over movables, such as cars, equipment and other,

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors, geographic location and type of collateral.

The Bank structures the levels of credit risk by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

The loan portfolio of the Bank remains widely dispersed across different types of borrowers, asset categories and number of industries, thus preventing excessive concentration risks. For that purpose, the Bank has introduced a set of limits that control the exposure of the Bank towards different types of borrowers, industry sectors, geographic location and type of collateral.

7.1.2 Risk Measurement and Reporting Systems

The Bank uses international standards of measurements and practices as well as the NBE Directives, guidelines and their derivatives to assess credit, liquidity, market and operational risks. The Bank also uses its own internal policies and procedures to assess risks.

7.1.3 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.

7.2 Financial Instruments by Category

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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 summarized in the table below:

	Notes	FVOCI	Amortized Cost	Total
30 June 2019		**Birr'000**	**Birr'000**	**Birr'000**
Cash and Balances with Banks	16a	-	3,057,666	3,057,666
Loans and Advances to Customers	17	-	10,033,356	10,033,356
Due from Banks & Other Financial Institutions	18	-	71,050	71,050
Equity Investments	18	33,648	-	33,648
Bonds and Bills	19	-	4,256,177	4,256,177
Other Assets	19	-	548,545	548,545
Total Financial Assets		**33,648**	**17,966,791**	**18,000,135**

	Notes	Available-For-Sale	Loans and receivables	Total
30 June 2018		**Birr'000**	**Birr'000**	**Birr'000**
Cash and Balances with Banks	16a	-	2,676,716	2,676,716
Loans and Advances to Customers	17	-	7,067,044	7,067,044
Due from Banks & Other Financial Institutions	16b	-	44,104	44,104
Equity Investments	18	18,948	-	18,948
Bonds and Bills	18	.	3,029,999	3,029,999
Other Assets	19	-	443,426	443,426
Total Financial Assets		**18,948**	**13,261,289**	**13,280,237**

7.3 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.

7.3.1 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 advances 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 (PD)

The approach adopted in deriving the probability of default is the transition matrix approach. The transition matrix records all data about transitions from one state to the other, i.e. from pass to special mention all through to non-performing. The initial step in this approach is to split up the total value of loans outstanding in a given month into the various loan classification buckets. For the purpose of this Expected Credit Loss (ECL) model, the buckets to be used are:

- Pass
- Special mention
- Non-performing (Sub-standard, Doubtful and Loss)
- Paid/ settled

An analysis will then be done to estimate the movement of loan amounts from one bucket to the next between two subsequent time periods. This results in a matrix that indicates the proportionate movement of loans across the buckets. This is done considering the loan values. An average of all transitions obtained over the 60 month period is then obtained to form the general transition matrix to be applied.

The Bank uses computation of PD by amount.

(b) Loss Given Default (LGD)

The loss given default (LGD) that measures how much (in form of a percentage) the bank is expected to lose in the event that default occurs from a customer. This is estimated by considering two scenarios in the Bank,that is, using collateral in instances whether the customer has collateral against the debt instrument that they have undertaken with the Bank and/or an analysis of the historical cash collections after the default event, for cases that the debt instrument is not supported by any security.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For loans that are under-collateralized management have recomputed LGD ((Exposure – Net Collateral Value) / Total Sector Loan portfolio * 100%) For a more conservative mode a minimum LGD of 10% is applied to customers whose computed LGDs fall below the minimum Basel prescribed threshold of 10%.

(c) Exposure at Default (EAD)

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

7.3.2 Impairment Assessment

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

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

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

No impairment loss shall be recognised on equity investments.

7.3.3 Credit Related Commitment Risks

The Bank holds collateral against loans and advances 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.

7.3.4 Maximum Exposure to Credit Risk before Collateral Held or Credit Enhancements

The Bank's maximum exposure to credit risk at 30 June 2019 and 30 June 2018 is represented by the net carrying amounts in the statement of financial position.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash and Balances with Banks	3,057,666	2,676,716
Loans and Advances to Customers	10,033,356	7,067,044
Equity Investments	33,344	18,948
Bonds and Bills	4,256,177	3,029,999
Other Assets	548,542	443,426
	17,929,085	**13,236,133**

Credit Risk Exposures Relating to Off balance Sheets :

	30 June 2019 Birr'000	30 June 2018 Birr'000
Loan commitments	508,790	103,977
Guarantees issued and outstanding	11,014,200	7,435,721
Letter of credit and other credit related obligations	731,300	118,652
	12,254,290	7,658,349
Total maximum exposure	**30,183,376**	**20,894,482**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Pass	9,473,693	6,713,242
Special mention	325,636	291,381
Substandard	200,535	99,545
Doubtful	116,552	72,422
Loss	99,358	28,036
	10,215,774	**7,204,626**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Agriculture	47,841	18,881
Transport	411,363	467,556
Hotel and Tourism	291,211	259,911
Import	826,584	463,873
Export	1,409,989	1,326,403
Manufacturing	1,075,586	579,388
Domestic trade and services	2,661,640	1,815,119
Building and construction	2,409,349	1,507,056
Personal loan	414,367	264,320
Staff loan	667,843	502,119
	10,215,774	**7,204,626**

The above table represents a worst case scenario of credit risk exposure of the Bank as at the reporting dates without taking in to account of any collateral held or other credit enhancements attached. The exposures are based on gross carrying amounts.

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.

7.3.5 Credit Quality Analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents and short-term investments that were neither past due nor impaired as at 30 June 2019 and 30 June 2018 have been classified as non-rated as there are no credit rating agencies in Ethiopia.

(b) Credit quality of loans and advances

30 June 2019	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	Total Birr'000
Agriculture and production	43,028	2,681	2,133	47,841
Transport	353,280	40,950	17,133	411,363
Hotel and tourism	275,262	11,853	4,096	291,211
Import	683,718	77,779	65,087	826,584
Export	1,323,838	36,815	49,336	1,409,989
Manufacturing	1,038,768	41,626	1,861	1,082,255
Domestic trade and services	2,299,705	259,623	95,643	2,654,971
Building and construction	2,090,428	217,150	101,771	2,409,349
Personal loans	384,643	23,531	6,193	414,367
Staff loan	661,858	5,985	-	667,843
Gross	**9,154,528**	**717,994**	**343,252**	**10,215,774**
Less:				
Impairment allowance (note 17b)	(32,400)	(5,706)	(80,636)	(118,743)
Interest in suspense	-	-	(12,447)	(12,447)
Staff Loan Market Interest Adjustment	(51,228)			(51,228)
Net Loans and Advance	**9,070,900**	**712,288**	**250,169**	**10,033,356**

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 and production	16,981	1,058	842	18,881
Transport	401,539	46,544	19,473	467,556
Hotel and tourism	245,676	10,579	3,656	259,911
Import	383,698	43,649	36,526	463,873
Export	1,245,359	34,633	46,411	1,326,403
Manufacturing	555,963	22,423	1,002	579,388
Domestic trade and services	1,572,235	177,496	65,388	1,815,119
Building and construction	1,307,570	135,828	63,658	1,507,056
Personal loans	245,360	15,010	3,950	264,320
Staff loan	497,619	4,500	-	502,119
Gross	**6,471,999**	**491,720**	**240,907**	**7,204,626**
Less: Impairment allowance (note 17b)	(102,728)	-	-	(102,728)
Net Loans and Advance	**6,369,270.93**	**491,720.00**	**240,907.07**	**7,101,898.00**

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

The credit quality of the portfolio of loans and advances 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 advances in this category are loans past due for less than 30 (thirty) days.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Neither past due nor impaired	9,122,128	6,471,999
Collective impairment	(32,400)	(49,986)
Loan and advances (net)	**9,089,728**	**6,422,013**

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Past due up to 30 days	717,994	491,720
Collective impairment	(5,706)	(2,005)
Loan and advances (net)	**712,288**	**489,715**

(iii) Loans and advances - impaired loans

	30 June 2019 Birr'000	30 June 2018 Birr'000
Impaired loans	343,252	240,907
Collective impairment	(80,636)	-
	262,616	**240,907**

(v) Allowance for loan impairment

	30 June 2019 Birr'000	30 June 2018 Birr'000
Specific impairment	-	15,504
Collective impairment	118,743	87,222
Total allowance for impairment	**118,743**	**102,726**

7.3.6 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 expected loss model required by IFRS 9. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

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

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

Provisions for loans recognized in the income statement should be determined based on the requirements of IFRS.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Total impairment based on IFRS	118,743	102,728
Total impairment based on NBE Directives	(148,860)	(97,536)
Increase(Decrease) in IFRS Provision	**(30,117)**	**5,192**

7.3.7 Credit concentrations

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

30 June 2019

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	-	-
Loans and advances	-	128,375	9,960,231	127,167.70
Investment securities	4,256,390	-	-	-
Investment in Equity	-	-	33,648	-
Loan commitments	-	-	508,790	-
	4,256,390	**128,375**	**10,502,669**	**127,168**

30 June 2018

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	615,107	-
Loans and advances	-	90,595	7,024,288	89,743
Investment securities	2,987,062	-	-	-
Investment in Equity	-	-	18,948	-
Loan commitments	-	-	103,980	-
	2,987,062	**90,595**	**7,762,323**	**89,743**

7.3.8 Nature of security in respect of loans and advances

30 June 2019	Building & Mortgage Birr'000	Vehicles Birr'000	Building, Mortgage & Vehicle Birr'000	Shares Birr'000	Clean Basis Birr'000	Others Birr'000
Domestic Trade & Services	1,912,671	647,773	3,318	490	910	69,651
Construction	1,218,740	760,934	-	5,572	64,557	291,537
Export	408,937	433,829	2,897	3,910	229,422	313,509
Import	581,999	167,237	-	10,580	-	66,768
Transport & Comm.	31,053	377,810	-	-	-	858
Manufacturing	632,018	240,974	-	9,629	-	141,284
Hotel and tourism	258,335	31,266	915	-	-	-
Agriculture & production	29,522	9,347	-	-	-	8,973
Personal loans	797,422	130,894	-	3,561	120,958	29,375
	5,870,696	**2,800,063**	**7,131**	**33,743**	**415,847**	**921,955**

30 June 2018	Building & Mortgage Birr'000	Vehicles Birr'000	Building, Mortgage & Vehicle Birr'000	Shares Birr'000	Clean Basis Birr'000	Others Birr'000
Domestic Trade & Services	1,223,028	4,369	297,405	1,337	34,896	251,758
Construction	742,530	57,573	6,323	373	80,943	619,314
Export	462,195	134,819	123,415	472	502,826	102,676
Import	311,572	15,309	38,128	-	59,956	38,908
Transport & Comm.	28,931	405,004	17,059	-	238	16,324
Manufacturing	328,664	20,040	47,097	3,443	-	180,144
Hotel and tourism	243,085	7,228	6,337	1,209	1,154	898
Agriculture & production	11,992	3,159	-	-	-	3,730
Personal loans	178,421	55,962	1,740	4,023	16,198	63,882
	3,530,418	**703,463**	**537,504**	**10,857**	**696,211**	**1,277,634**

7.3.9 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 borrowers provide it. Staff loans are secured to the extent of the employee's continued employment in the Bank and against the buildings or vehicles purchased.

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.

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.

At 30 June 2019, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to ETB 416,445 million (2018: ETB 200,003 million) and the value of identifiable collateral held against those loans and advances amounted to ETB 924,474 million (2018: ETB 413,103 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

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

7.4.1 Management of Liquidity Risk

Cash flow forecasting is performed by Treasury and Investment Department. Treasury and Investment Department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

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

7.4.2 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 2019	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000	Total Birr'000
Deposits from customers	1,346,785	299,286	299,286	598,571	12,420,352	14,964,280
Borrowings	-	-	-	-	-	-
Due to Banks & Other Institutions	16,854					16,854
Current tax liabilities			140,070			140,070
Margins held on letters of credit		569,464				569,464
Retirement benefit obligations					69,354	69,354
Other liabilities	29,011		324,925	173,012	527	527,475
Total financial liabilities	**1,392,650**	**868,750**	**764,280**	**771,583**	**12,490,234**	**16,287,497**

30 June 2018	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000	Total Birr'000
Deposits from customers	1,364,040	331,900	241,730	347,580	8,576,430	10,861,680
Borrowings	-	-	-	-	-	-
Due to Banks & Other Institutions	27,323	-	-	-	-	27,323
Current tax liabilities	-	-	68,219	-	-	68,219
Margins held on letters of credit	-	314,518	-	-	-	314,518
Retirement benefit obligations	-	-	-	-	43,848	43,848
Other liabilities	27,172	-	303,290	161,171	341	491,974
Total financial liabilities	**1,418,535**	**646,418**	**613,239**	**508,751**	**8,620,619**	**11,807,562**

7.5 Market Risk

Market risk is defined as the risk of loss that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions.

The Bank does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

7.5.1 Management of Market Risk

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

(i) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk.

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

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

30 June 2019	**Fixed Birr'000**	**Floating Birr'000**	**Non-interest bearing Birr'000**	**Total Birr'000**
Assets				
Cash and balances with banks	733,840	-	2,323,826	3,057,666
Loans and advances	9,933,022	-	100,334	10,033,356
Investment securities	4,213,615	-	42,562	4,256,177
Total	**14,880,478**	**-**	**2,466,721**	**17,347,199**
Liabilities				
Deposits from customers	9,577,139	-	5,387,141	14,964,280
Borrowings	-	-	-	-
Total	**9,577,139**	**-**	**5,387,141**	**14,964,280**

30 June 2018	Fixed Birr'000	Floating Birr'000	bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	629,793	-	2,046,923	2,676,716
Loans and receivables	7,140,143	-	64,483	7,204,626
Investment securities	3,029,999	-	18,948	3,048,947
Total	**10,799,935**	**-**	**2,130,354**	**12,930,289**
Liabilities				
Deposits from customers	6,936,648	-	3,925,032	10,861,680
Borrowings	-	-	-	-
Total	**6,936,648**	**-**	**3,925,032**	**10,861,680**

(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 summarizes 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 30 June 2019 was Birr 1,058,875 billion and 30 June 2018 Birr 381.4 million.

Foreign currency denominated balances

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash and bank balances	865,377	278,820
Deposits/Liabilities	193,498	102,591
	1,058,875	**381,411**

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 15% and 5% as shown below:

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
USD cash at Foreign and Cash Balances	865,377	278,820
15% appreciation of Dollar	129,807	41,823
5% Depreciation of Dollar	(43,269)	(13,941)
	86,538	**27,882**

7.6 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.

7.6.1 Capital Adequacy Ratio

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

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

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Capital		
Capital contribution	2,000,000	1,709,050
Retained earnings	397,591	208,132
Legal reserve	422,871	308,390
Other Reserve	(24,499)	(23,894)
	2,795,963	**2,201,678**
Risk weighted assets		
Risk weighted balance for on-balance sheet items	11,017,210	7,491,853
Credit equivalents for off-balance Sheet Items	5,907,760	3,769,873
Total risk weighted assets	**16,924,970**	**11,261,726**
Risk-weighted Capital Adequacy Ratio (CAR)	**17%**	**20%**
Minimum required capital	**10%**	**10%**
Excess	**7%**	**10%**

7.7 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.

7.7.1 Valuation Models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) .This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data.

In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

7.7.2 Financial Instruments Not Measured at Fair Value - Fair value Hierarchy

The following table summarizes 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 categorized.

30 June 2019	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	3,057,745	-	3,057,745	-	3,057,745
Loans and advances	10,097,031	-	10,097,031	-	10,097,031
Investment securities	4,279,132	-	-	4,279,132	4,279,132
Total	**17,433,908**	**-**	**13,154,776**	**4,279,132**	**17,433,908**
Financial liabilities					
Deposits from customers	14,964,280	-	14,964,280	-	14,964,280
Other liabilities	527,475	-	527,475	-	527,475
Total	**15,491,755**	**-**	**15,491,755**	**-**	**15,491,755**

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	2,676,716	-	2,676,716	-	2,676,716
Loans and receivables	7,088,718	-	7,088,718	-	7,088,718
Investment securities	3,051,211	-	-	3,051,211	3,051,211
Total	**12,816,645**	**-**	**9,765,434**	**3,051,211**	**12,816,645**
Financial liabilities					
Deposits from customers	10,861,680	-	10,861,680	-	10,861,680
Other liabilities	492,088	-	492,088	-	492,088
Total	**11,353,768**	**-**	**11,353,768**	**-**	**11,353,768**

7.7.3 Transfers between the Fair Value Hierarchy Categories

During the 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.

7.8 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 2019 Birr'000	30 June 2018 Birr'000
8 Interest Income		
Interest on loans and advances	1,348,408	979,100
Interest on investment securities	113,943	81,335
Interest on deposits due from banks	73,455	52,351
	1,535,806	**1,112,786**

		30 June 2019 Birr'000	30 June 2018 Birr'000
9	**Interest Expense**		
	Interest on Demand deposits	(11,599)	-
	Interest on Saving deposits	(460,779)	(271,687)
	Interest on Time deposits	(132,658)	(142,544)
	Interest on borrowings from domestic banks	-	(3,115)
		(605,036)	**(417,346)**

		30 June 2019 Birr'000	30 June 2018 Birr'000
10	**Net Fees and Commission Income**		
	Fee and commission income		
	Commission on letters of credit	75,965	51,333
	Commission on CPOs, Cheques and FTs	3,528	4,163
	Commission on guarantees	261,063	130,574
	Fees Income	185,484	134,624
	Commission on PO issuance	24,774	28,719
		550,814	**349,413**
	Fee and commission expense :		
	Fee and commission Expense	(7,565)	(6,105)
		-	-
		(7,565)	(6,105)
	Net fees and commission income	**543,249**	**343,308**

		30 June 2019 Birr'000	30 June 2018 Birr'000
11	**Other Operating Income**		
	Other income	38,198	23,407
	Gain on foreign exchange	81,462	62,151
		119,660	**85,558**

		30 June 2019 Birr'000	30 June 2018 Birr'000
12	**Impairment losses on Financial Instruments**		
	Loan Impairment Charge	61,334	25,179
	Other Financial Assets	5,493	14,703
		66,827	**39,882**

		30 June 2019 Birr'000	30 June 2018 Birr'000
13	**Personnel Expenses**		
	Short term employee benefits :		
	Salaries	(389,037)	(293,462)
	Staff allowances	(38,904)	(31,701)
	Overtime	(8,089)	(5,332)
	Bonus	(68,699)	(48,524)
	Training and Education	(24,532)	(7,792)
	Leave Payment	(10,245)	(337)
	Pension costs – Defined contribution plan	(40,223)	(29,969)
	Provident Fund – Defined contribution plan	(5,955)	(4,848)
	Employee Benefit Expense-Interest Rate	(5,243)	(951)
	Other staff expenses	(17,632)	(9,553)
		(608,559)	**(432,469)**
	Long term employee benefits :		
	Defined benefit plans-Severance	(14,299)	(6,282)
		(622,858)	**(438,751)**

	30 June 2019 Birr'000	30 June 2018 Birr'000
14 Other Operating Expenses		
Rent	(106,577)	(87,334)
Utilities	(1,597)	(1,127)
Advertisement and promotions	(24,659)	(22,037)
Software Maintenance Fee	(6,579)	(7,820)
Sponsorship expenses	(2,468)	(2,033)
Communicaton expense	(11,959)	(10,002)
Postage and stamps	(122)	(93)
Stationery and office expenses	(15,913)	(14,061)
Legal and professional fees	(5,179)	(538)
Audit fees	(270)	(262)
Repairs and maintenance	(7,274)	(5,118)
Travelling expenses	(4,624)	(6,231)
Donations	(13,000)	(2,177)
Insurance	(10,609)	(7,733)
Entertainment	(1,250)	(996)
Fuel and lubricant	(5,094)	(4,237)
Miscellaneous expenses	(40,709)	(13,912)
License fees	(78)	(31)
Director fees	(2,657)	(1,500)
Fines and penalty	(520)	(240)
Loss on foreign exchange	(28,116)	(16,770)
Loss on Revaluation or Disposal	(291)	-
Impairment - Equity Investment	-	(711)
Impairment Loss - Property	(364)	(65)
Inventory Write-Down Expense	(32)	-
Impairment Loss on Assets Held for Sale	-	(320)
	(289,941)	**(205,348)**

15 Company Income and Deferred Tax

5a Reconciliation of effective tax to statutory tax

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

	30-Jun-19	30 June 2018
	Birr'000	Birr'000
Current income tax		
Charge for the year:	127,659	83,088
Prior year (over)/ under provision	-	-
Deferred income tax/(credit) to profit or loss	(5,530)	(8,295)
Total charge to profit or loss	122,128	74,793
Tax (credit) on other comprehensive income	7,350	7,168
Total tax in statement of comprehensive income	**129,478**	**81,961**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit before tax	**580,053**	**410,934**
Add : Disallowed Expenses		
Entertainment	1,250	996
Donation	-	227
Penalty	520	240
Awards	1,025	85
Impairment Loss - Property	364	65
Impairment - Equity Investment	-	711
Impairment Loss on Assets Held for Sale	-	320
Impairment loss - Bank balances	(14)	-
Impairment loss - Bills & Bonds	61	-
Impairment loss - Guarantees	(111)	-
Impairment loss - Letters of Credit	42	-
Inventory Write-Down Expense	32	(261)
Provision for loans and advances as per IFRS	66,827	25,179
Severance expense	14,299	6,282
Depreciation for IFRS accounting purpose	32,610	28,225
Amortization for IFRS accounting purpose	1,390	484
Prior Period Tax Expense	13,217	-
	131,511	**62,553**
Less :		
Depreciation for tax purpose	43,588	34,394
Provision for loans and advances for tax NBE 80%	54,229	28,299
Interest income taxed at source- foreign	1,628	839
Dividend income taxed at source	805	94
Interest income taxed at source-NBE Bills	113,943	81,335
Interest income taxed at source-Local Deposit	71,827	51,509
Revaluation Gain - Investment Property	287	196
	286,306	**196,666**
Taxable profit	**425,258**	**276,821**
Current tax at 30%	127,577	83,046
5% on interest on foreign deposits	81	42
Total tax in statement of comprehensive income	**127,659**	**83,088**
Average Effective Tax Rate:	**22.01**	**20.22**

The average effective tax rate is the tax expense divided by accounting profit.

15b	Current income tax liability	30 June 2019 Birr'000	30 June 2018 Birr'000
	Balance at the beginning of the year	68,219	107,923
	Charge for the year:	127,659	83,089
	Capital gains tax		-
	Income tax expense		-
	Prior year (over)/ under provision	12,414	-
	WHT Notes utilised	(3)	-
	Payment during the year	(68,219)	(122,793)
	Balance at the end of the year	**140,070**	**68,219**

15c Deferred income tax

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

The analysis of deferred tax assets/(liabilities) is as follows:	30 June 2019 Birr'000	30 June 2018 Birr'000
To be recovered after more than 12 months	11,754	6,224
To be recovered within 12 months	-	-
	11,754	**6,224**

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

Deferred income tax assets/(liabilities):	At 1 July 2018 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2019 Birr'000
Property, plant and equipment	6,930	2,121	-	9,052
Provisions	-	-	-	-
Unrealized exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post-employment benefit obligation	(13,154)	(7,652)	-	(20,806)
Total deferred tax assets/(liabilities)	**(6,224)**	**(5,530)**	**-**	**(11,754)**

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	6,685	246	-	6,930
Provisions	-	-	-	-
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post-employment benefit obligation	(4,613)	(8,541)	-	(13,154)
Total deferred tax assets/(liabilities)	**2,071**	**(8,295)**	**-**	**(6,224)**

16 Cash and Cash Equivalents

	30 June 2019 Birr'000	30 June 2018 Birr'000
16a Cash and balances with banks		
Cash in hand local currency	1,414,011	1,336,106
Cash in hand foreign currency	63,911	26,848
Placement with other Institutions	695,788	629,793
Deposits with foreign banks	801,466	251,972
Balance held with National Bank of Ethiopia	82,569	431,997
Gross amount	3,057,745	2,676,716
Less :		
Allowance for Impairment- Bank Balances	(79)	-
	3,057,666	**2,676,716**

	30 June 2019 Birr'000	30 June 2018 Birr'000
16b Due from Banks & Other Financial Institutions :		
ATM Settlement-Off Us	7,193	9,096
Cheque Clearance-Outward	3,746	7,319
Foreign Currency Receivable	60,111	27,689
	71,050	**44,104**

		30 June 2019 Birr'000	30 June 2018 Birr'000
16c	**Restricted Fund Balance**	754,000	542,000

The restricted fund balance represents 5% of deposit balance maintained with National Bank of Ethiopia.

17 Loans and Advances

17a Loans and advances to customers

	30 June 2019 Birr'000	30 June 2018 Birr'000
Agriculture	47,841	18,881
Building and construction	2,187,623	1,507,056
Domestic trade and services	2,392,712	1,801,938
Export	923,226	1,326,403
Hotel and Tourism	284,701	259,911
Import	479,945	463,873
Manufacturing	926,202	579,388
Merchandise Loans	92,811	-
Overdrafts	999,889	-
Personal loan	414,024	264,320
Pre-Shipment	399,653	-
Staff loan	667,817	502,119
Transport	399,330	467,556
Gross amount	10,215,774	7,191,445
Less: Impairment allowance (note 17b)		
Collective impairment	-	(102,728)
Stage 1	(32,422)	-
Stage 2	(5,644)	-
Stage 3	(80,677)	-
	10,097,031	**7,088,718**
Less :		
Interest in suspense	(12,447)	13,181
Staff Loan Market Interest Adjustment	(51,228)	(34,855)
Net Loan Balance	**10,033,356**	**7,067,044**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	3,166,890	2,252,075
Non-Current	7,048,884	4,952,552
	10,215,774	**7,204,626**

17b Impairment Allowance for Loans and Advances

IFRS 9 key guidance on segmentation

(IFRS 9 B5.5.5) For the purpose of determining significant increases in credit risk and recognizing a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis.

In addition, common considerations that a Bank may consider before selection of a segmentation criteria include, but are not limited to:

- Customer grading methodologies and whether this is reflective of the proposed segmentation criteria.
- How a Bank sets portfolio credit concentration limits.
- Management's experience with regards to historical default trends.
- Regulatory guidance on credit reporting.
- Financial statement disclosures and current credit reporting structures.
- Consistency in segmentation between IAS 39 and IFRS 9.

Based on the above facts the bank recognize the loss allowance by segmenting its portfolios into the following clusters:

i. Agriculture
ii. Construction and Building (Including Hotel and Tourism)
iii. Domestic Trade and Services (Including Transport and Communication)
iv. Export and Imports
v. Manufacturing
vi. Personal Loans

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

Collective allowance for impairment	As at 30 June 2018 Birr'000	Charge for the year Birr'000	30 June 2019 Birr'000
Allowance For Impairment - Agriculture	(295)	(431)	(726)
Allowance For Loan Impairment - Building And Construction	(29,459)	(18,701)	(48,160)
Allowance For Loan Impairment - DTS	(32,744)	678	(32,066)
Allowance For Loan Impairment - Export and Imports	(31,542)	22,616	(8,926)
Allowance For Loan Impairment - Manufacturing	(2,716)	270	(2,446)
Allowance For Loan Impairment - Personal	(5,972)	1,571	(4,401)
Allowance For Loan Impairment - merchandise loans	-	(839)	(839)
Allowance For Loan Impairment - Preshipment loans	-	(10,802)	(10,802)
Allowance For Loan Impairment - Overdrafts	-	(10,264)	(10,264)
Allowance For Loan Impairment - Emergency staff loans	-	(113)	(113)
Total - Collective Impairment	**(102,728)**	**(16,015)**	**(118,743)**

Collective allowance for impairment	As at 30 June 2017 Birr'000	Charge for the year Birr'000	As at 30 June 2018 Birr'000
Allowance For Impairment - Agriculture	(364)	69	(295)
Allowance For Loan Impairment - Building And Construction	(18,355)	(11,104)	(29,459)
Allowance For Loan Impairment - DTS	(21,444)	(11,300)	(32,744)
Allowance For Loan Impairment - Export and Imports	(29,337)	(2,205)	(31,542)
Allowance For Loan Impairment - Manufacturing	(3,809)	1,093	(2,716)
Allowance For Loan Impairment - Personal	(4,239)	(1,733)	(5,972)
Allowance For Loan Impairment - merchandise loans	-	-	-
Allowance For Loan Impairment - Preshipment loans	-	-	-
Allowance For Loan Impairment - Overdrafts	-	-	-
Allowance For Loan Impairment - Emergency staff loans	-	-	-
	-	-	-
Total - Collective Impairment	**(77,548)**	**(25,180)**	**(102,728)**

18 Investment Securities

		30 June 2019 Birr'000	30 June 2018 Birr'000
18a	*Bonds and Bills*	4,256,390	3,029,999
	Less:		
	Allowance for impairment - Bills & Bonds	(213)	-
	Net Bond and Bills	**4,256,177**	**3,029,999**
18b	**Equity Investments**	22,742	21,212
	Fair Value Adjustment – Equity Investments	10,602	-
	Less:		
	Impairment allowance- Equity Investment	-	(2,264)
	Net Equity Investments	**33,344**	**18,948**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	4,256,177	3,029,999
Non-Current	33,344	18,948
	4,289,521	**3,048,947**

The Bank holds equity investments in Ethio Switch S.C.,Berhan Insurance S.C., Premier Switch Solution S.C and Debo Micro Finance S.C. The percentage shareholding for each equity investments is summarized as follows:

30 June 2019 Birr'000	Number of shares	% owned as per the Bank	Amount invested	Fair Value as per IFRS 9
Ethswitch S.C.	12,002	5.55%	12,002	20,777
Berhan Insurance S.C.	4,940	4.94%	4,940	5,848
Premier Switch Solution S.C	4,800	3.21%	4,800	5,826
Debo Micro Finance S.C.	1,000	9.48%	1,000	893
Total Equity Investments				**33,344**

30 June 2018 Birr'000	Number of shares	% owned as per the Bank	Amount invested	Fair Value as per IFRS 9
Ethswitch S.C.	12,002	5.55%	12,002	9,758
Berhan Insurance S.C.	3,410	3.90%	3,410	4,496
Premier Switch Solution S.C	4,800	3.21%	4,697	6,888
Debo Micro Finance S.C.	1,000	8.33%	1,000	1,046
Total Equity Investments				**22,188**

		30 June 2019 Birr'000	30 June 2018 Birr'000
19	**Other assets**		
	Financial assets		
	Other Receivables	307,540	238,943
		307,540	**238,943**
	Non-financial assets		
	Prepayments	177,806	180,227
	Prepaid Staff Benefits	71,293	46,569
		249,099	**226,796**
	Gross amount	**556,639**	**465,739**
	Less :		
	Impairment allowance for Other assets	8,097	22,313
	Net amount	**548,542**	**443,426**

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	548,542	443,426
Non-Current	-	-
	548,542	**443,426**

19a Impairment Allowance on Other Assets

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Balance at the beginning of the year	22,313	8,832
IFRS 9 Day 1 Impact	(19,730)	-
(Reversal)/charge for the year	5,514	13,481
Balance at the end of the year	**8,097**	**22,313**

19b Inventory

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Sundry materials	2,693	4,060
Check books	3,485	2,767
Stationary	3,654	2,061
Printed materials	5,603	3,585
Draft and CPO	140	157
Computer Hardware And Accessories	-	10
Revenue stamp	22	20
Cleaning and sanitation	7	-
Gross amount	**15,604**	**12,660**
Less:		
Allowance for Inventory Write-Down	(124)	(93)
	15,480	**12,568**

19c Non-Current Assets Held for Sale

	30 June 2019 Birr'000	30 June 2018 Birr'000
Assets Held for Sale	10,286	7,486
Less:	-	
Allowance for Impairment Assets Held for Sale	(290)	(320)
	9,996	**7,166**

The non-current assets held for sale comprises repossessed collaterals. The buildings are not impaired while the two vehicles showed decrease in value as indicated by the fair value assessment.

20 Investment Property

Investment property is made up of properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model. Investment properties are revalued annually and are included in the statement of financial position at their open market values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in profit or loss within change in fair value of investment property. However, the bank used its internal valuer to assess the fair value of its investment property because there is scarcity of professional valuers and also the value of the building is not significant.

Rental income and operating expenses from investment property are reported within revenue and other expenses. The rental income from the investment property for 30-June-2019 was Birr 151,939.12, and for 30-June-2018 Birr 169,382.60. The operating expense incurred in connection with the investment property was minimal.

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
Balance as at the beginning of the year	2,758	2,562
Fair value gain/(loss) on investment property	287	196
Balance at the end of the year	**3,045**	**2,758**

The fair value of investment property was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The property comprise of one condominium units.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1 Birr' 000	**Level 2 Birr' 000**	**Level 3 Birr' 000**	**Total Birr' 000**
As at 30 June 2019				
Investment properties	-	3,045	-	3,045
As at 30 June 2018				
Investment properties	-	2,758	-	2,758

Valuation technique used to derive level 2 fair value on investment property has been valued on the basis of highest and best use that is Market Value for existing use. Leasehold considerations and tenancies have been reflected in the valuation.

21 Intangible Assets

	Computer software
	Birr'000
Cost:	
As at 1 July 2018	8,693
Acquisitions	12,605
Disposal	(6,235)
As at 30 June 2019	**15,063**
Accumulated amortisation and impairment losses	
As at 1 July 2018	7,582
Amortisation for the year	1,390
Impairment losses	(6,235)
As at 30 June 2019	**2,737**
Net book value	
As at 30 June 2018	1,111
As at 30 June 2019	12,326

22 Property, plant and equipment

Property, plant and equipment	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Cost:						
As at 30 June 2018	**13,654**	**94,628**	**87,234**	**59,206**	**40,589**	**295,311**
Additions	24,946	36,003	76,915	24,803	21,089	183,755
Disposals	-	(1,438)	(677)	(278)	(481)	(2,874)
Reclassification	-	-	-	-	-	-
As at 30 June 2019	**38,600**	**129,192**	**163,472**	**83,731**	**61,196**	**476,191**
Accumulated amortization and impairment losses						
As at 1 July 2018	**249**	**21,715**	**26,450**	**13,618**	**17,364**	**79,396**
Charge for the year	312	7,535	13,108	6,463	5,192	32,610
Impairment Loss			352	9	3	705
Disposals	-	(968)	(445)	(241)	(343)	(1,998)
As at 30 June 2019	**561**	**28,281**	**39,465**	**19,850**	**22,216**	**110,372**
Net book value						
As at 30 June 2018	**13,405**	**72,913**	**60,784**	**45,588**	**23,225**	**215,914**
As at 30 June 2019	**38,039**	**100,912**	**124,007**	**63,882**	**38,981**	**365,819**

The gross carrying amount of fully depreciated still in use are as follows:

	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories
As at 30 June 2018			23		68
As at 30 June 2019		5,152	54	0.3	65

		30 June 2019 Birr'000	30 June 2018 Birr'000
23	**Liabilities**		
23a	**Due to Banks & Other Institutions**		
	Cheque Clearance-Inward	3,838	7,861
	ATM Settlement-On Us	13,016	19,462
		16,854	**27,323**

		30 June 2019 Birr'000	30 June 2018 Birr'000
23b	**Deposits from Customers**		
	Demand deposits	5,358,543	3,967,477
	Savings deposits	8,298,773	5,772,120
	Time deposits	1,306,964	1,122,083
		14,964,280	**10,861,680**

	30 June 2019 Birr'000	30 June 2018 Birr'000
Margins held on letters of credit	569,464	314,518

23c Other Liabilities

	30 June 2019 Birr'000	30 June 2018 Birr'000
Banking instruments payables	124,524	161,171
Unearned Income	173,528	132,498
Tax and Other Obligations	26,293	24,462
Sundry payables	199,240	171,247
Interest payable on demand deposits	3,890	2,710
Gross amount	**527,475**	**492,088**

Breakdown of Tax and Other Obligations:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Capital Gain Tax Payable	-	95
Employer Pension Cont	4,751	3,699
Income Tax Payable	12,527	10,059
Stamp Duty Charges	2,045	880
Income Tax on Savings Interest	3,137	2,127
Withholding Tax-Local	501	430
Value Added Tax-Vat Payable	72	16
Withholding Tax -Technical Service-Abroad	120	-
Cost Sharing Expense Payable	11	5
Dividend Tax Payable	-	4,809
Reverse Taxation Payable	134	-
Employee Pension Cont	2,997	2,341
	26,295	**24,461**

23d Provisions

	30 June 2019 Birr'000	30 June 2018 Birr'000
Leave Pay	20,232	10,188
Bonus Payable	68,863	48,436
	89,095	**58,624**

			30 June 2019 Birr'000	30 June 2018 Birr'000
23e	**Retirement Benefit Obligations**			
	Defined benefits liabilities:			
	Severance pay	Note 22 (f)	69,354	43,848
	Liability in the statement of financial position		**69,354**	**43,848**
	Income statement charge included in personnel expenses:			
	Severance costs	Note 22(f)	14,299	6,282
	Total defined benefit expenses		**14,299**	**6,282**
	Remeasurements for:			
	Remeasurement gains/(losses)	Note 22(f)	(11,715)	(22,659.00)
`			**(11,715)**	**(22,659)**

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

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	-	-
Non-Current	69,354	43,848
	69,354	**43,848**

23f Severance Pay

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

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

		30 June 2019 Birr'000	30 June 2018 Birr'000
A	**Liability recognised in the financial position**	69,354	43,848

		30 June 2019 Birr'000	30 June 2018 Birr'000
B	**Amount recognised in the profit or loss**		
	Current service cost	7,625	3,610
	Interest cost	6,674	2,672
		14,299	6,282

23g Retirement Benefit Obligations (Contd)

C Amount recognised in other comprehensive income:

Actuarial (Gains)/Losses on demographic assumptions	-	-
Actuarial (Gains)/Losses on economic assumptions	4,527	15,240
Actuarial (Gains)/Losses on experience	7,188	7,419
	11,715	**22,659**

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
(Liability)/Asset at beginning of period	43,848	15,378
(Expense)/Income recognised in OCI	11,715	22,659
(Expense)/Income recognised in Profit and Loss	14,299	6,282
Remeasurement (gains)/ losses	-	-
Benefits paid	(508)	(471)
At the end of the year	**69,354**	**43,848**

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2019 Birr'000	30 June 2018 Birr'000
Discount rate (p.a)	12.50%	13.03%
Long term salary Increase rate (p.a)	12.00%	12.00%

ii) Mortality in Service

The rate of mortality assumed for employees are those according to the British A49/52 ultimate table published by the Institute of Actuaries of England. These rates combined are approximately summarized as follows:

Mortality rate

Age	Male	Female
20-24	0.31%	0.22%
25-29	0.30%	0.23%
30-34	0.36%	0.31%
35-39	0.41%	0.28%
40-44	0.52%	0.32%
45-49	0.45%	0.43%
50-54	0.63%	0.63%
55-59	0.98%	0.98%
60-64	1.54%	1.54%

23h Retirement Benefit Obligations (Contd)

iii) Withdrawal from Service

The withdrawal rates are as summarized below :

Age	Resignation rates per annum
Less than 20	0.00%
21-25	15.00%
26-30	12.50%
31-35	10.00%
36-40	7.50%
41-45	5.00%
46-50	2.50%
Above 51	0.00%

24 Ordinary Share Capital

	30 June 2019 Birr'000	30 June 2018 Birr'000
Authorized:		
Ordinary shares of Birr 1,000 each	2,000,000	1,709,050
Issued and fully paid:		
Ordinary shares of Birr 1,000 each	2,000,000	1,709,050

As at 30 June 2019, the authorized share capital of the Bank comprised of 2,000,000 ordinary shares with a par value of Birr 1000. Issued and fully paid ordinary shares, which have a par value of Birr 1000, carry one vote per share and carry a right to dividend.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

25 Retained Earnings

	30 June 2019 Birr'000	30 June 2018 Birr'000
Retained Earnings		
At the beginning of the year	208,132	214,376
Profit / (loss) for the year	457,924	327,846
Day 1 IFRS 9 Impact	54,148	-
Transfer to legal reserve	(114,481)	(80,921)
Dividend provided for / paid	(208,132)	(261,464)
Deferred Tax adjustment	-	8,295
At the end of the year	**397,591**	**208,132**

26 Legal Reserve

	30 June 2019 Birr'000	30 June 2018 Birr'000
Legal Reserve		
At the beginning of the year	308,390	227,469
Transfer from profit or loss	114,481	80,921
At the end of the year	**422,871**	**308,390**

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.

27 Other Reserves:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(35,101)	(23,894)
Movement in fair value reserve-equity instruments	10,602	-
	(24,499)	**(23,894)**
Income tax relating to Other comprehensive income :		
	-	-
Remeasurement Gain or Loss on Defined Benefit Plans	(10,530)	(7,168)
	-10,530	-7,168
Net Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(24,571)	(16,726)
	(24,571)	**(16,726)**

Income tax relating to Other comprehensive income :		
	-	-
Movement in fair value reserve-equity instruments	3,181	-
	3,181	-
Net Other comprehensive income :		
Movement in fair value reserve (equity instruments)	7,421	-
	7,421	**-**

28 Earnings per Share

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Net profit attributable to ordinary equity holders		457,924	327,846
Weighted average number of ordinary shares		1,857,812	1,610,442
Basic Earnings per share		**24.65**	**20.36**
Retained earnings balance available for distribution to ordinary equity holders	**24**	397,591	208,132
Weighted average number of ordinary shares		1,857,812	1,610,442
Net Basic Earnings per share		**21.40**	**12.92**

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

29 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both.

There are other companies which are related to Berhan Bank through common shareholdings or common directorships.

In the normal course of business, a number of banking transactions are entered into with related parties i.e. staff, directors, their associates and companies associated with directors. These include loans, deposits and foreign currency transactions. Loans and advances to customers include loans and advances to staff and to companies associated with directors. Contingent liabilities include guarantees and letters of credit for companies associated with directors.

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

29a Loans and Advances

	30 June 2019 Birr'000	30 June 2018 Birr'000
Companies associated with directors		
At the beginning of the year	95,142	37,603
Net movement during the year	(31,726)	57,539
At the end of the year	**63,416**	**95,142**
Guarantees and letters of credit to companies associated with directors	-	-

The above outstanding balances arose from the ordinary course of business and are substantially on the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Directors		
At the beginning of the year	37,462	51,728
Net movement during the year	(2,250)	(14,266)
At the end of the year	**35,212**	**37,462**
Guarantees and letters of credit to directors	-	-

These loans and advances are performing and are adequately secured.

29b Deposit by Directors and key management personnel

	30 June 2019 Birr'000	30 June 2018 Birr'000
At the beginning of the year	973	663
Net movement during the year	(174)	310
At the end of the year	**799**	**973**

29c Key management compensation

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Salaries and other short-term employee benefits	20,960	19,602
Post-employment benefits	-	-
Termination benefits	-	-
Sitting allowance	1,814	662
Other expenses	61	11
	22,835	**20,275**

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

29d Directors and Employees

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

	30 June 2019 Birr'000	30 June 2018 Number
Professionals and High Level Supervisors	72	27
Semi-professional, Administrative and Clerical	189	178
Technician and Skilled	8	-
Manual and Custodian	351	286
	620	**491**

ii) The table below shows the number of employees (excluding directors), who earned over Birr 10,000 as emoluments in the year and were within the bands stated.

	30 June 2019 Birr'000	30 June 2018 Birr'000
10,000 - 30,000	1,157	834
30,001 - 50,000	20	27
50,001 - 100,000	-	-
Above 100,000	-	-
	1,177	**861**

30 Contingent Liabilities

30a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2019 is Birr 17.3 million (30 June 2018: Birr15.59 million). 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.

A tax assement was conducted by the Ethiopian Revenue and Customs Authority covering the financial year form 2002 E.C to 2006 EC .As a result of the assesment additional taxes, interest and penalty amounting to Birr 33.15 million was levied by the tax office. The bank has appealed to federal high court against the additional taxes. Our appeal was reconsidered by the federal tax appeal commission on 31-July-2018 and the Bank paid only Birr 8.3 million Birr and the case was closed.

Claims by the bank

The bank has instituted suits against third parties arising from the normal course of business. The possible claim arising from settlement of these cases as at 30 June 2019 is Birr 14.4 million (30 June 2018: Birr 32.80 million)

30b Guarantees and Letters of Credit

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

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

	30 June 2019 Birr'000	30 June 2018 Birr' 000
Guarantees issued and outstanding	11,014,200	7,435,721
Commitments on letters of credit net of margin paid	731,300	118,652
Loans approved but not disbursed	508,790	103,977
	12,254,290	**7,658,349**

31 Commitments

The Bank has commitments, not provided for in these financial statements, of 30 June 2019 Birr 16.7 million (30 June 2018: Birr 142.36 million) for purchase of various capital items.

31a Operating Lease Commitments - Bank as Lessee

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
No later than 1 year	32,223	83,622
Later than 1 year and no later than 2 years	29,544	51,181
Later than 2 years but not later than 5 years	94,943	39,974
Above 5 years	16,659	-
Total	**173,369**	**174,777**

32 Events after reporting period

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