Oromia Bank

Baankii Oromiyaa ኦሮሚያ ባንክ

ANNUAL REPORT 2021/22

Serving to Empower You

Our Vision

"To Become
the Bank of Your
First Choice"

ANNUAL REPORT

2021/22

Our Mission

We are committed in providing full-fledged and best quality commercial banking services within the pertinent regulatory requirements with due diligence to sustainable business while empowering the missing middle and discharging social responsibility by engaging highly qualified, skilled, motivated and disciplined employees and state-of-the- art information technology, adding real value to the shareholders' interest and win the public trust.

Our Core Values

- We value persistence, endurance and tenacity;
- We value customer satisfaction;
- We value transparency, integrity and confidentiality;
- We uphold team spirit and grooming potential successor;
- We value total respect to customers and employees;
- We value competitive and motivated human resource with ever growing skills;
- We promote a learning and innovative organization;
- We value belongingness;
- We uphold corporate citizenship.

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KEY PERFORMANCE INDICATORS, AS AT JUNE 30, 2022

Birr 1.2B
+37.8% YoY Net Profit

Birr 307
+13.7% YoY Earnings Per share

Birr 222
-2% YoY Average dividend per share

Birr 1.9B
+35% YoY Profit before Depreciation, Provision, and Bonus

Birr 1.5B
+34.5% YoY Profit Before Tax

Birr 316.5M
+23.2% YoY Income Tax

Birr 52.0B
+24.8% YoY Asset

Birr 5.8B
+28.1% YoY Revenue

Birr 4.3B
+25.9% YoY Expense

USD 279.4M
+54.6% YoY FCY

Birr 43.5B
+26.7% YoY Deposit

Birr 32.1B
+24.7% YoY Loan and IFB Financing

10,873
-7.5% YoY Borrowers

4.4B
+26.0% YoY Paid-up Capital

6.8B
+24.7% YoY Total Capital

400
+26.6% YoY Branches

3.2M
+27.9% YoY Regular Customers

1.1M
+243% YoY Digital Customers

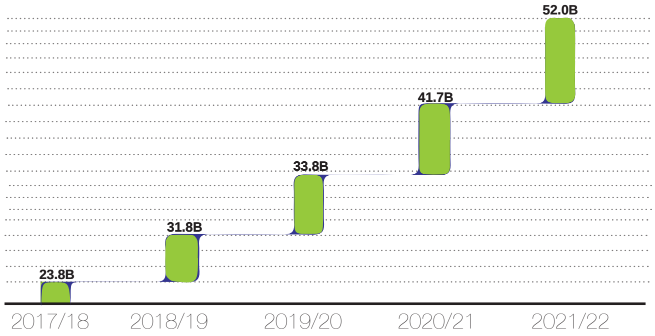
5,004
+17.5% YoY Permanent Staff

8,059
+25.6% YoY Total Employment

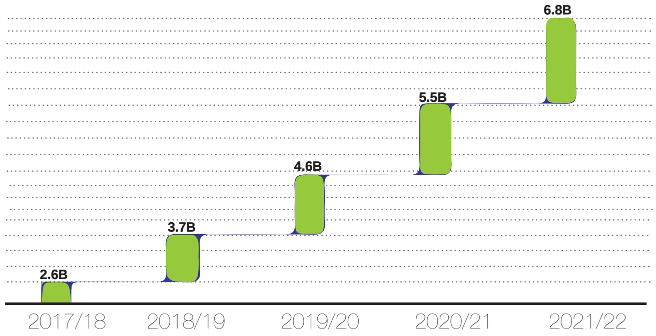
905
+21.8% YoY Service Outlet

Our Bank's Key Performance Trend as at June 30, 2022

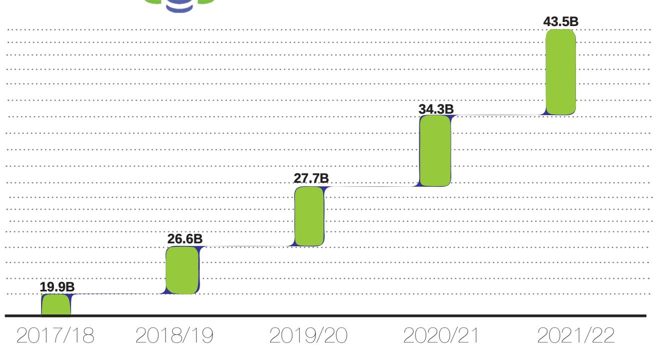
Asset



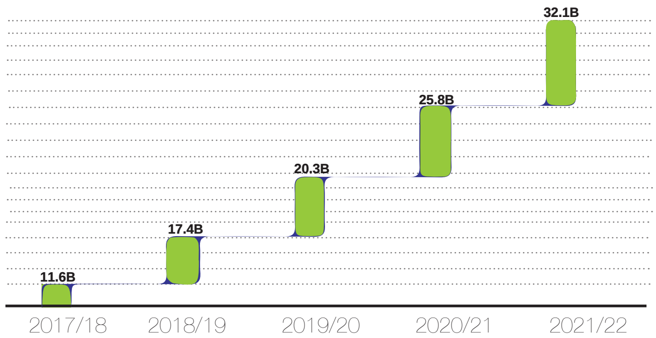
Total Capital



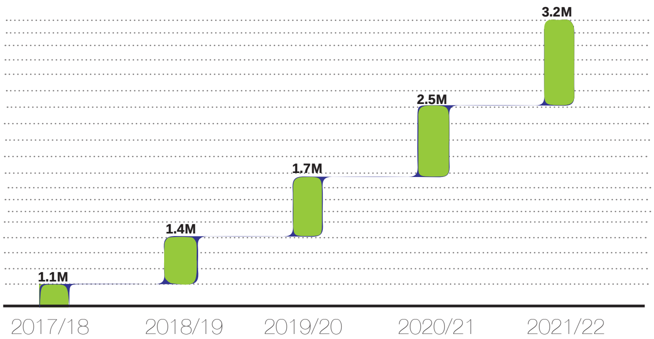
Deposit



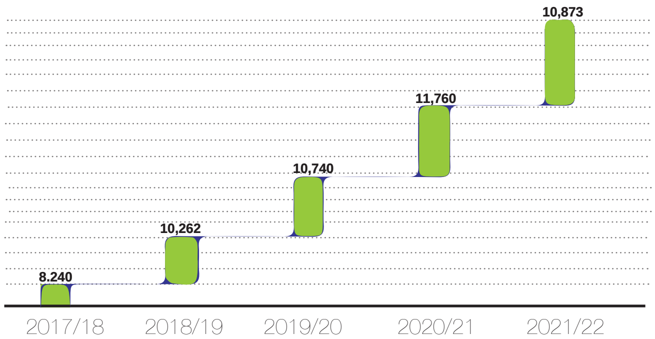
Loan + IFB Financing



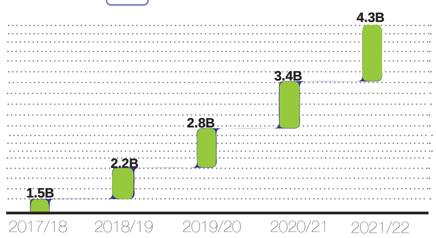
Depositors



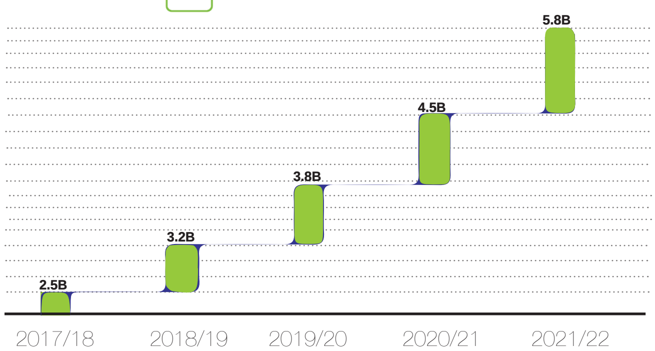
Borrowers



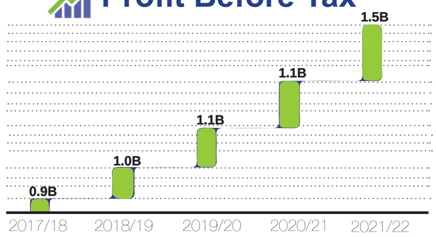
Total Expense



Total Income



Profit Before Tax



Board of Directors

Gemechu Waktola (Ph.D.)
Board Chairperson

Obbo Mulugeta Tujuba
V/Chairperson

Dr. Assefa Seme
Member

Hon. Ajema Gondel
Member

Hon. Eshetu Temesgen (Ph.D.)
Member

Obbo Deressa Kenea
Member

Girma Balcha (Ph.D.)
Member

Fanta Tesgera (Ph.D.)
Member

Hon. Gudeta Gelalcha
Member

Obbo Samuel Tesfa
Member

Obbo Worku Homa
Member

Obbo Solomon Geda
Company Secretary

Message from
The Board of Directors' Chairperson

Dear respected shareholders, invited guests, observers from the National Bank of Ethiopia and Documents Authentication and Registration Agency (DARA);

Ladies and Gentlemen;

On behalf of the Board of Directors and myself, I am honored to welcome you all to the 13th Annual and 4th Extraordinary General Meetings of Shareholders. It is also a great privilege for me to present the Annual Report of the Board of Directors focusing on key performances of our Bank for the financial year ended June 30, 2022.

Respected Shareholders, Ladies and Gentlemen;

Despite the adverse impact of international trade like the rising crude oil and base metal prices coupled with the industry's fierce competition and political instability in the domestic market, our Bank registered commendable results in almost all Key Performance Indicators in the financial year ended on 30 June 2022.

Ladies and Gentlemen;

It gives me a great pleasure to announce to respected shareholders that our Bank has managed to attain a profit of Birr 1.52 billion (before tax) showing a growth of 34.5% over the preceding year; earning per share stood at Birr 307, showing a growth of 13.7% over the preceding year, a good achievement vis-à-vis the considerable growth (about 26%) in paid up capital during the period under review, and the global and local challenges posed by the ensuing impact of COVID-19, the Russian-Ukraine conflict, and the unfortunate conflict and instability in the country. The total assets of our Bank grew by 24.8% and reached Birr 52 billion. Our Bank's paid up capital reached Birr 4.4 billion, out of the subscribed capital of Birr six billion. With regard to branch expansion, our Bank has reached a total of 400 branches by opening 84 new branches during the reporting financial year. The regular and digital customers of the Bank reached 3.2 million and 1.1 million, respectively. Our Bank has created job opportunity for 8,090 employees (5,004 permanent and the remaining on outsourced and contractual basis). During the reporting period, 345 employees left the Bank on various grounds, and 1,090 employees joined the Bank. With the objective of building the capacity of our human resource and enhancing productivity, different relevant trainings were given for 11,961 employees during the reporting financial year. Our Bank has also effected a merit-and performance based employees' motivational initiatives through attractive bonus payment and by implementing total reward package with the view of motivating our employees in general and rewarding best performers in particular. Our Bank has invested in nine different companies of financial and strategic importance. The Board would like to acknowledge that the investments in Oromia

Insurance (S. Co.), Tsehay Industry (S. Co.), EthSwitch (S. Co.) and Elemo-Qiltu House Building, Elemtu Integrated Milk Industry S.C, have continued to serve the purpose and are in a rewarding state.

The construction of our 33-storey (4B&1/2+G+28F) Transitional Headquarters at Goma Kuteba is well underway. So far, the progress of the construction has reached about 17%. The four-story building in Adama has been completed and has gone fully functional. Our Bank will shortly finalize the ongoing contractor selection and commence the construction of multi-purpose buildings planned to serve as Excellence and Convention Center on OB's Gelan site in the current budget year. Our effort to acquire land from Finfinne City Administration for OB's Future Headquarters Park at the area commonly known as future 'financial hub' (SengaTera- Mexico locality) has continued under close supervision and follow up of the Board and the Management despite the various challenges we have encountered. Moreover, our Bank is working hard to secure plots of land in different major towns in Oromia and major towns in other regions for enhancing the asset base and smooth banking operations of our Bank.

Our Bank has also continued discharging its corporate social responsibility mainly in response to calls for national development initiatives, defense of national peace and stability and other social services including the support of drought affected communities. To this end, a total of over Birr 18 million was donated over the reporting financial year.

During the reporting financial year, the Board of Directors conducted 18 full Board meetings (including regular and urgent meetings); each of the Board sub-committee also conducted regular meetings as required by the National Bank of Ethiopia. The Board passed various value-adding decisions and provided strategic directions and guidance in line with the policies and procedures of our Bank as well as regulatory organ's directives.

In the time ahead, I am confident that the Board, the management and the entire employees of our Bank shall continue working hand in glove to take our Bank to a new height and meet the high expectations of our stakeholders. To this end, our Bank is already implementing the third strategic plan, which is believed to transform the overall performance of the Bank by drastically transforming the capacity and quality of our human resource, rebranding the bank, enhancing digitalization, reaching out to the grassroots by expanding our customer base and branch network so as to mobilize as much resources as possible thereby increasing our lending and financing capacity, closely managing NPLs as well as prudently managing expense, and working on the attitude of our employees towards the commitment of ensuring superior customer experience and innovative marketing thereby thriving to make our Bank stand among the leading banks in the industry in terms of major performance measurement parameters. We will also make unreserved and concerted efforts to complete the already commenced construction projects and launch the construction initiatives in the pipeline. Hence, the Board is working hard focusing on the close supervision of the effective implementation of OB's third strategic plan and three-year Board Agenda so that the desired objectives of the Bank are successfully met.

In order to drive our bank's transformation towards implementation, a full organizational restructuring and a result and competency based redeployment of employees has taken place throughout our bank with the view of ensuring the right people are assigned at the right positions and roles. The Board of Directors strongly believe that unless Oromia Bank builds strong talent base and technological capability, there won't be a chance to achieve the aspired transformation in the coming few years - most importantly, it will be very much challenging for our Bank to achieve superior customer experience. Therefore, in addition to other essential areas and well positioning OB, I believe there is a need to make focused investments on talent and cutting-edge technologies. Towards this end, the Bank is investing in the implementation of OMNI Channel Digital Banking Solution which, when fully deployed, is believed to enable our customers to seamlessly and consistently interact with the Bank digitally thereby positioning OB at the forefront in digitalization. The implementation of the OMNI Channel Solution is being expedited under close supervision and follow-up of the Board, and it will be fully implemented in a few months to come.

I should also seize this opportunity to mention the national policy measure allowing the opening up of Ethiopian market for the operation of foreign banks and the introduction of financial market, which will one way or the other impact the local banks. With this in mind, the Board and the management are making proactive preparations with the view of tapping the possible opportunities and mitigate the ensuing challenges posed by the policy change and ensure the resilience of our Bank.

Ladies and Gentlemen;

As much as there are challenges in the industry, there are also enormous opportunities ahead of us. Let us all put our energies together in order to convert the challenges into opportunities and make careful use of them.

Finally, I would like to extend my heartfelt vote of thanks to our honorable shareholders for their confidence in us and unfailingly continued support; esteemed customers for banking with us, and their intact confidence during difficult times; members of the Board of Directors for their dedication and successful leadership; the Sharia Advisory Committee for their advisory role in the IFB operations; the management and the staff for their strong ties, commitment, unity of purpose and sense of ownership.

My heartfelt appreciation also goes to the National Bank of Ethiopia for its continued guidance and support. My sincere appreciation also goes to the External Auditor, Degefa & Tewodros Audit Service Partnership, for the professionalism it demonstrated in auditing accounts of our Bank. And I am grateful to other government organizations such as Documents Authentication and Registration Agency, Finfinne City Administration, and regional governments for their cooperation and steady support. Furthermore, I would like to thank different local Banks and international correspondent Banks for their productive partnership and smooth working relationships.

OB shall remain People's Bank!
God Bless You All!

Gemechu Waktola (Ph.D.)
Chairperson, Board of Directors

Senior
Managment Members

Obbo Teferi Mekonnen
Chief Executive Officer

Obbo Faysel Yassin
Chief Officer, Corporate Banking & Int'l Trade

Obbo Worku Lema
Chief Officer, Retail and SME Banking

Obbo Geleta Bekuma
Chief Officer, IT Infrastructure and Services

Obbo Jote Kenate
Chief Officer, Corporate Strategy and Transformation Mgt

Obbo Alemayehu Demisse
Deputy Chief Officer, Corporate Services

Obbo Gelana Leta
Deputy Chief Officer, Human Resources

Obbo Tesfaye Dheressa
Deputy Chief Officer, Credit Operation Mgt.

Obbo Berhanu Edae
Chief, Internal Auditor

Obbo Ketema Mengesha
Chief, Risk Mgt and Compliance

Obbo Belay Bayisa
A/Deputy Chief Officer, Marketing and Partnership

Obbo Teshite Suleyman
Director, Financing and Invest-ment Mgt. Direcorate

Obbo Dagnachew Negash
Director, Legal Service Directorate

Obbo Endale Foye
Deputy Executive Assistant to the CEO

Obbo Mikyas Bogale
Director, Financial Mgt. Directorate

Obbo Merga Dugassa
Director, Procurement and Facility Directorate

Obbo Tatek Negassa
Director, IT Innovation and Modernization Directorate

Obbo Haregewoyn Deyu
Director, Marketing and Research Directorate

Obbo Zeleke Begna
Director, IT Systems Operation Directorate

Obbo Bersisa Diro
Director, Cyber Security Directorate

Obbo Gadissa Gurmu
Director, Int'l Trade Services Directorate

Obbo Meseret Mekonnen
Director, Digital Banking Directorate

Obbo Lemessa Tessema
Director, Human Resource Operations Directorate

Obbo Habtamu Gemechu
Director,Sales and CRM Directorate

Obbo Belachew Basha
A/Director, Human Resource Dev't Directorate

Obbo Olyad Degu
Director,Credit Monitoring & Recovery Mgt Directorate

Obbo Lema Muleta
Director, Credit Analysis and Appraisal Directorate

Obbo Guluma Abdissa
Director, Strategy Mgt. Directorate

Obbo Habte Ashenafi
A/Director, Change and Project Mgt. Directorate

Aadde Asha Mohammed
Director, IFB Operations Department

Obbo Edile Etana
Director, Corporate Banking Department

Message from the Chief Executive Officer

Dear Honourable Shareholders & Guests;

I feel privileged to warmly welcome you-our esteemed shareholders, members of the Board of Directors, Management at all levels, employees, and invited guests to this colourful 13th General Assembly of Shareholders of our Bank.

I am glad to inform you that our Bank's year-on-year sustainable growth has continued for the 13th consecutive year even with newer heights. Being powered by utmost team spirit and unity of direction among the Board of Directors, the Management and all employees, we maintained and further strengthened our resource base, customer base, asset, capital, branch network, asset quality, innovation, profitability, institutional maturity, and service excellence, especially in international trade against all adverse odds in the market.

As per the World Bank, June 2022 reports, following more than two years of pandemic spillovers coupled with the Russian Federation-Ukraine conflict set to sharply hasten the deceleration of global economic activity, which is expected to slow to 2.9% in 2022. The war in Ukraine leads to high commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening policy uncertainty. Growth in emerging markets and developing economies (EMDEs) has downgraded to 3.4% this year, as negative spillovers from the conflict more than offset of any near-term boost to some commodity exports against higher energy prices.

As a result of the negative shocks to global activity in 2022, global growth is forecasted to edge up only slightly to a still-subdued 3% in 2023, as many headwinds in particular; high commodity prices, and continued monetary tightening are expected to persist.

Looking into the domestic economy, the export value of Ethiopian goods hit a record high of USD 4.1billion in the FY 2021–22, an increase of USD 500million over the USD3.6billion exported the previous. Our country has obtained a record-hit USD 1.4billion from Coffee export in the just concluded 2021/22 fiscal year. The record-high revenue has also surpassed the target for the budget.

According to African Development Bank Report, Ethiopian GDP growth is projected to fall to 4.8% in 2022, but expected to pick up to 5.7% in 2023, driven by industry, private consumption, and investment. A tourism rebound and liberalization of the telecoms sector are expected to boost the growth outlook. Key downside risks to the growth of Ethiopian outlook include the conflict in northern Ethiopia, COVID-19, and debt vulnerabilities. Higher global food and oil prices due to the Russia–Ukraine conflict are expected to increase inflation. The continuous high inflationary pressure registered would have a negative impact on the country's economic growth and also it might reduce savings. The June 2022 year-on-year inflation index has shown 34%, while the year-on-year Food inflation also showed 38.1% in June 2022.

Honourable Shareholders & Guests;

Amid challenges including the continued adverse impact of the COVID-19 pandemic, political instability, increasing competition, and regulatory requirements, our Bank-Oromia Bank has scored another golden year of success. The results of operational performances depict the sustainability of our Bank's growth trajectory. The branch network reached 400 with additional 84 branches during the year. The customer base in terms of the number of deposit accounts grew by 28% and reached 3.2million. Deposit resource mobilization performance showed a growth of 27% and reached Birr 43.52 billion as of June 30, 2022, comprising both conventional and interest-free banking deposits. International banking operations enabled to generate of foreign currency of USD 279.4million, demonstrating the highest year-on-year growth of 55% from the Ethiopian banking industry and consistent performance, which is extended to the current fiscal year. Our paid-up capital grew to Birr 4.36 billion at the end of the fiscal year.

The total asset of our Bank showed a growth of 25% and reached Birr 52 billion as at June 30, 2022. Performance on the provision of loans, advances, and financing including Interest-Free Banking financing resulted in a growth of 25% in alignment with deposit growth and reached Birr 32.14 billion with a very healthy loan portfolio of non-performing loans (NPLs) ratio of 2.02%, a record low in our 13-year history and far lower than the regulatory limit of 5%. Favorably, this key performance indicator of asset quality is the best in the Ethiopian banking industry showing the healthiness of our Bank.

Oromia Bank's financial profitability performance during the year has demonstrated a pretty encouraging growth trend. Accordingly, total revenue grew by 28% from the last year's same period and reached Birr 5.79 billion while the total expense of the year reached Birr 4.27 billion with 26% growth compared to last year's same period; our total revenue growth flying well above total expense growth showing healthy revenue-expense structure. As a result, gross profit before depreciation and amortization of Birr 1.9billion while a profit before tax of Birr 1.52 billion is achieved, after the deduction of the yearly depreciation, amortization & employee's incentive (bonus), indicating a year-on-year growth of 35% compared to the previous year's same period.

The reporting year was peculiar in terms of the execution of a number of parallel construction and other projects. The progress of the Headquarters construction project at the 'Goma Kuteba' site reached about 17%, with structural construction progress 5 basement+1G, despite all national and international challenges. Under normal circumstances, the structural part of the construction will be completed in the fiscal year under consideration. Our Adama Building construction was finalized, inaugurated made ready for own office use and rental service. After finalizing the design work during the year, the first phase of Gelan Future Excellence and Convention Center construction will commence this fiscal year. Recently the selection of contractors is underway. Moreover, the follow-up on securing the Future Headquarters building plot around 'Sengatera' area is under priority follow up of the Board of Directors and the Senior Management against multifaceted challenge. There are other promising efforts to acquire land at different major towns for the future construction of branch and district offices.

The year 2021/22 was a golden year for our Bank in view of grounding the implementation of the 3rd Transformational Strategic Plan & Three Year Board Agenda with the right brand, structure, human resource, process and technology; corporate strategy, functional strategies, implementation of management performance system, competency-based staff redeployment and capacity building activities were underwent. Diverse awareness creation and capacity building programs(in-house, local and international) were facilitated to the Board of Directors, the management and all employees to implement the transformational strategy knowledgably.

On December 3, 2021, we conducted the new inspirational Brand Launching Ceremony at the Sheraton Addis, in the in person presence of key guests of honour, representatives of key stakeholders and connecting all stakeholders live with the event via live TV broadcasting. We induced the new brand into our stakeholder within shorter time supported by the grace & all-inclusiveness of the new brand.

As we principally envisioned and focus on service excellence and innovation, and always looking to find ways to provide better products and enhanced superior financial experiences to our customers and in a view to align our Bank to digital era, our Bank has also concluded a contract with joint Digital solution providers namely CR2 Ltd and Moneta Plc in a bid to upgrade the existing stand-alone 24/7 digital multi-channels to a user-friendly world class digital Banking system (OMNI Channel) in the reporting period and its project is under way. The project will be completed in the current fiscal year and accordingly, our Bank will provide superior customer service to our esteemed customers in a bid to positioning our Bank in the driving seat.

As usual, our Bank has been discharging its corporate social responsibilities to combat multifaceted social, economic, political and environmental incidents. In parallel, having the mission of empowering the missing middle in mind, the financial inclusion of MSMEs is hugely supporting and gearing the nation towards achievement of strategic sustainable development goals.

Honourable Shareholders & Guests;

Being powered by its new inspirational brand, our Bank is conquering poverty and providing efficient and superior service not only at national level but also at international level by excelling in its international trade service. Being enabled by a very transformational strategy, our Bank is currently providing a just-in-time superior ever international trade corresponding service in compliance with national and international regulatory requirements. Our customers, our correspondent banks, suppliers for our customers, international money transfer agents and other associates are living witnesses for this. Currently, we settle discrepancy-free import documents same day we receive in a t+0 basis, keeping the best interest of all the 3 parties involving in international trade transaction; Buyer, Seller and Corresponding(advising) banks. As a result, our local importers enjoy discount. The sum total of our continuous transformation in this regard puts our bank in the driving-seat in international trade service superiority among homegrown commercial banks. I trust the lion's share of our recognition by the ESQR Quality Choice Prize 2022, Spain, Barcelona, which consolidated our Golden Year goes to this superior customer experience. Such international recognition exemplifies our Bank's transformational efforts and commitment to providing excellent customer service internationally, while building national image at international level.

In view of our bold marks already left in the banking industry, we are very glad when we are recognized for such globally recognized and impactful award and this will surely inspire our management and staff team for more success, boost our customer reliability and trust as well as stakeholders' confidence in our Bank. We feel our stakeholders in general and our customers and renowned correspondent banks in particular are the secrets behind our strength and this award, and they feel proud as well. Equally, our Board of Directors, our Management Team, Our staffs, our shareholders and our regulatory organs including the National Bank of Ethiopia are irreplaceable pillars of this achievement.

Finally, I would like to thank all our respected customers for choosing us to serve them and being a reason for Oromia Bank's successive growth with newer heights this time. Our shareholders also deserve thanks for continuously investing in and supporting the continuous improvement and growth of our Bank. Our Board of Directors are also key to the successful achievements of our Bank in the financial year for their commitment and professional strategic directions for which I shall also say thank you with more to come. Moreover, management members and employees of our Bank deserve appreciations for their commitment and dedication to make our Bank the bank of first choice as per its vision. I also want to extend my thanks to the National Bank of Ethiopia, and both regional and federal governments for their unwavering continuous guidance and support, respectively, as always.

Honourable shareholders, members of the board of directors, members of management, employees and invited guests once again thank you and welcome to our colourful General Assembly as usual, wishing a fruitful discussions and resolutions.

Indeed we are serving to empower you…

I thank you!

Teferi Mekonnen Yadete

Chief Executive Officer

Report of the Board of Directors

Oromia Bank
Serving to Empower You

Board of Directors' Report

The Board of Directors of Oromia Bank hereby presents the Annual Performance Report of our Bank for the year ended 30 June 2022 to the 13th Annual General Meeting of Shareholders as follows;

1. OPERATIONAL HIGHLIGHTS

Despite the adverse impact of international trade like the higher prices for crude oil, and base metal coupled with the industry's fierce competition and political instability in the domestic market, our Bank registered commendable results in almost all Key Performance Indicators in the financial year that ended on 30 June 2022.

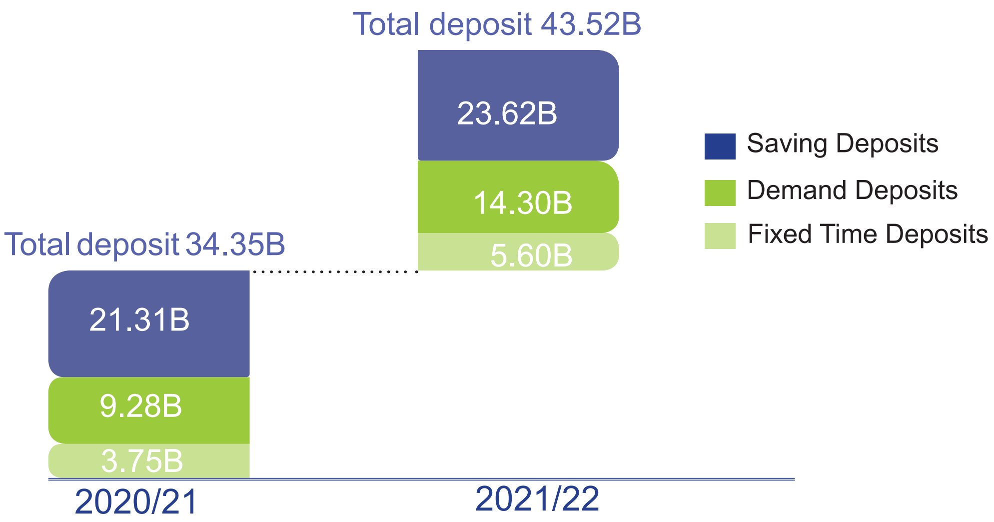
1.1 Deposit

The corporate total deposit of our Bank surged to Birr 43.5 billion, which is a 27% growth compared with that of the previous year's similar period.

Table 1: Deposit by Type

Deposit by type	Amount in Birr		% Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Saving Deposits	23,619 M	21,312 M	10.8	54.3	62.1
Demand Deposits	14,299 M	9,284 M	54.0	32.9	27.0
Fixed Time Deposits	5,604 M	3,749 M	49.5	12.9	10.9
Total	43,521M	34,346M	26.7	100.00	100.00

Figure 1: Deposit Composition by Type in two Consecutive Financial Years



1.2 Loans and Advances plus IFB Financing

The total outstanding loans and advances plus IFB financing have reached Birr 32.14 billion as at June 30, 2022, exhibiting a growth of 25% over the position attained at the end of the preceding year. With regard to the composition of Loans and Advances plus IFB financing, Domestic trade and Services took the highest share of (27.11%) followed by Export (21.82%), Industry (13.01%), Construction (9.76%), and Import (9.63%) during the reporting financial year.

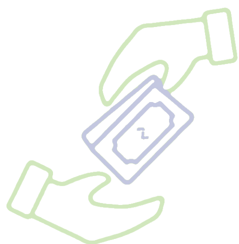


Table 2: Loans and Advances plus IFB financing by Economic Sector composition (in millions)

Loan and IFB Financing by Economic Sector	Amount in Birr		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Domestic trade and services	8,714 M	8,074 M	7.9	27.11	31.33
Export	7,012 M	4,946 M	41.8	21.82	19.19
Industry	4,181 M	2,893 M	44.5	13.01	11.22
Construction	3,136 M	2,733 M	14.7	9.76	10.60
Import	3,094 M	2,003 M	54.4	9.63	7.77
Hotel and tourism	1,613 M	1,454 M	11.0	5.02	5.64
Mortgage loan customer	1,132 M	848 M	33.4	3.52	3.29
Agriculture	965 M	861 M	12.0	3.00	3.34
Mortgage loan staff	835 M	936 M	(10.8)	2.60	3.63
Transport and communication	565 M	396 M	42.5	1.76	1.54
Consumer loans	301 M	135 M	123.6	0.94	0.52
Emergency staff loans	296 M	238 M	24.6	0.92	0.92
Personal loan staff	158 M	143 M	11.1	0.49	0.55
Microfinance institution	104 M	52 M	99.2	0.32	0.20
Consumer loans staff	21 M	22 M	(5.5)	0.06	0.08
Mining, power, and water resources	13 M	40 M	(67.6)	0.04	0.16
Total	32,141M	25,774M	24.7	100.0	100.0

1.3 Foreign Currency Generation

The total foreign currency generated by the International Banking function of our Bank as at June 30, 2022, was USD 279.4 million showing a growth of 55% from last year's similar period. Earnings from Export stood at USD 140.4 million while inward transfers were USD 127.6 million, forex purchase was USD 10.4 million, and forex dealing generated USD 1.1 million.

Table 3: FCY Generation Composition as at June 30, 2022

FCY by Type	Amount in USD		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Inward Transfers	140.4 M	76.4 M	38.47	50.23	42.27
Export Proceeds	127.6 M	92.2 M	83.65	45.68	50.98
Forex Purchase	10.4 M	11.1 M	(6.86)	3.71	6.16
Forex Dealing	1.1 M	1.1 M	-	0.38	0.58
Total	279.4 M	180.8 M	54.55	100.0	100.0

2. FINANCIAL PERFORMANCE

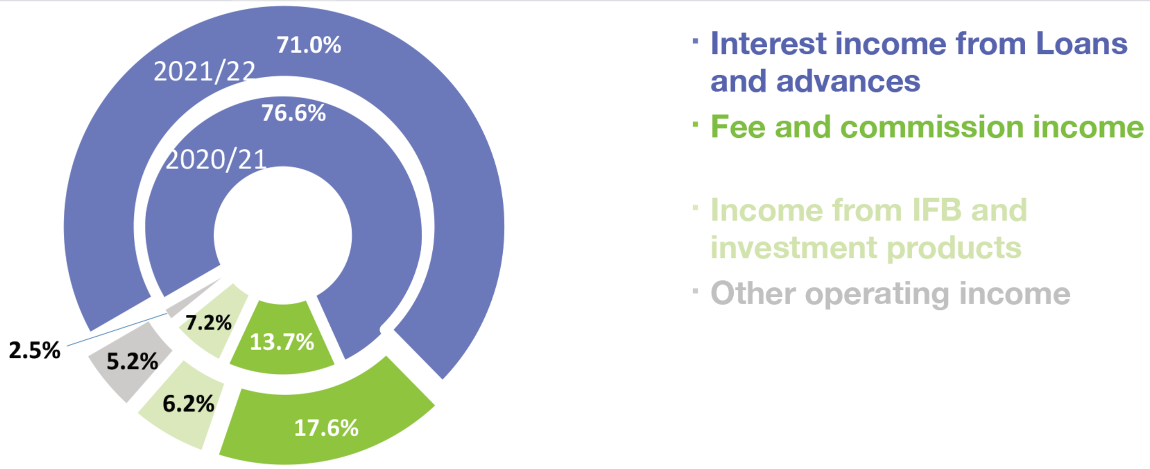
2.1 Income

By the end of the financial year 2021/22, our Bank earned an aggregate income of Birr 5.8 billion showing an increment of 28% relative to the balance achieved in the 2020/21 fiscal year.

Table 4: Income composition by type as at June 30, 2022

Income by Type	Amount in USD		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Interest income from Loans and advances	4,109M	3,463M	19	71.0	76.6
Fee and commission income	1,020M	620M	65	17.6	13.7
Income from IFB and investment products	358M	326M	10	6.2	7.2
Other operating incomes	303M	113M	168	5.2	2.5
Total	5,790M	4,521M	28.1	100.0	100.0

Figure 2: Income composition by type as at June 30, 2022



2.2 Expense

In the 2021/22 budget year, the total expenses of our Bank increased to Birr 4.3 billion, exhibiting a 26% upsurge over the previous year's amount of Birr 3.4 billion. This increasing expense is mainly attributed to interest expenses which constituted (38.7%) followed by personnel expenses (36.1%), other operating expenses (14%), and amortization of right of use asset expenses (5.1%) during the financial year under review.

Table 5: Expense composition by type as at June 30, 2022

Expense by Type	Amount in Birr		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Interest Expense	1,654 M	1,397 M	18.33	38.71	41.20
Personnel Expenses	1,543 M	1,243 M	24.17	36.12	36.63
Other operating expenses	599 M	390 M	53.42	14.01	11.50
Amortization of right of use assets	216 M	180 M	20.31	5.07	5.30
Depreciation and impairment of property, plant, and equipment	109 M	94 M	15.94	2.56	2.78
Impairment Losses on Other Assets	52 M	(1 M)	(3,794.93)	1.21	(0.04)
Lease Expense	33 M	29 M	13.39	0.76	0.85
Distribution to Depositors-IFB Products	31 M	1 M		0.73	0.02
Amortization of intangible assets	19 M	12 M	59.31	0.46	0.36
Loan Impairment Charge	16 M	47 M		0.37	1.40
Total	4,271M	3,392M	25.93	100.0	100.0

2.3 Profit

Profit before tax hit yet another record-high and reached Birr 1.52 billion, showing a growth of 35% compared with that of last year's same period of Birr 1.13 billion. Our Bank has managed to generate a net profit of Birr 1.2 billion after holding a provision of Birr 316.5 million for income tax for the fiscal year.

2.4 Return on Asset and Capital

Return on asset (ROA), expressed as the ratio of profit before tax to average assets of our Bank is 3.2% for the financial year 2021/22, while return on Equity (ROE), expressed as the ratio of profit before tax to average capital is 24.6%. These ratios basically measure management efficiency in the utilization of assets and capital in converting to profit, and the higher the ratio the better achievement. Moreover, the net profit margin of our Bank (net profit after tax divided by total income) is 20.8% for the year ending June 30, 2022. Likewise, the earnings per share of our Bank (net profit divided by the average number of shares outstanding) is Birr 222.

2.5 Distribution of Net Profit

Our Bank has secured a net profit of Birr 1.2 billion after an income tax provision of Birr 316.5 million. In accordance with the Articles of Association of our Bank, and article 19 of the Proclamation No 592/2008 Licensing and Supervision of Banking, 25% of the profit after tax (300.3 million) is transferred to legal reserve until the balance reaches 100% of the paid-up capital. Provisions under prudential guidelines are determined using the time-based provisioning prescribed by the National Bank of Ethiopia (NBE's) Directives. This is at variance with the expected credit loss model required by International Financial Reporting Standards (IFRS) under IFRS-9. When the difference occurs between the two approaches, the IFRS provision should be compared with provisions determined under the NBE Directives and the difference is treated as follows;

If the prudential provision is greater than the IFRS provision, the excess provision resulting should be transferred from the retained earnings account to the regulatory risk reserve.

* If the prudential provision is less than the IFRS provision, IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the Retained Earning Account. Accordingly, Birr 40.8 million is transferred from retained earning account to the regulatory risk reserve as the provision computed as per the prudential provision under NBE directives is greater than the provision computed as per the requirement of IFRS-9 by the same amount. Moreover, Birr 10.6 million is transferred to retained earning account from the regulatory risk reserve account due to write-backed suspended interest adjustment as indicated in the audited financial statement note 5.4.6. Thus, the Board of Directors requests the Annual General Meeting to approve the distribution of Birr 869,024 million to the shareholders after holding the above-mentioned reserves and deducting the Directors' share of the profit and prior year (over)/under provision.

Table 6: Retained Earnings of 2021/22

S. No	Particulars	Amount in "000"
1	Beginning Retained Earnings	-
2	Net Profit for the Year	1,201,074
3	Transfer to the legal reserve	(300,269)
4	Transfer to Regulatory Risk Reserve	(30,248)
5	Directors' share on profit	(1,533)
6	Prior year (over)/ under provision	-
	Closing Retained Earnings	869,024

3. RESOURCE BUILDING

3.1 Human Capital

The total staff of our Bank by the end of June 2022 reached 5,004 showing an increment of 18% which is a net addition of 745 staff from that of last year's number of the same period. Human resource development has been among the major concerns of our Bank since its establishment. To this end, during the financial year, various local and overseas trainings were given to 11,961 employees on a number of topics to build their capacity and thereby boost efficiency, productivity, and above all the quality of superior customer service.

3.2 Information Technology and Digital Banking Services

In order to fulfill the current and future needs of our customers, the implementation of advanced technology plays a paramount role in every aspect. To this effect, our Bank has implemented an up-to-date core-banking system that connects all its branches and delivers prompt and modern banking services to its esteemed customers. Our Bank is also providing round-the-clock banking services through well-developed and organized electronic channels branded as Oro-card for ATM, Oro-cash for mobile banking, Oro-agent for agency banking, and Oro-click for internet banking services. As at June 30, 2022, the number of ATM machines reached 147, and Oro cardholders are 400,581 while the number of Oro cash (mobile banking) users reached 662,895. There are 358 Oro-Agents recruited by our Bank on top of having 28,668 internet banking service user customers.

3.3 Branches and Service Outlet Expansion

Our Bank has continued getting closer to its esteemed customers through its extensive branch network, electronic, and digital channels. During the just ended financial year, the total number of our Bank branches reached 400. Our Bank opened 84 new branches across the country with the view of becoming accessible to the public at large. As a result, the number of our Bank service outlets reached 905 including ATM and Agency Banking.

3.4 Construction of Own Buildings

The construction of our 33-storey (4B&1/2+G+28F) transitional headquarters at Goma Kuteba is well underway. So far, the percentage of completion reached about 17%. Our four-storey building in Adama Town Administration has been completed and colorfully inaugurated and has gone fully functional.

4. INTEREST- FREE BANKING (IFB) PERFORMANCE

Oromia Bank is a pioneer in implementing interest-free banking services in Ethiopia. With the objective of scaling up the service, our Bank has opened IFB-dedicated branches, which have gone operational across the country. Our Bank offers a wide range of deposit, financing, and various banking products/services. Special saving products have also been introduced to encourage a saving culture. In this part of the report, IFB financial and operational performance is separately presented even though it was already included and presented in the corporate report.

4.1 IFB Fund Mobilization

At the end of the reporting year, our Bank has mobilized Birr 6.47 billion from Interest- Free Banking wing, showing an increment of 33% compared with that of last year's same period achievement. During the reporting period, IFB deposit by category reveals that Wadi'ah deposit accounted for 62% and Amana deposit took 34%. On the other hand, the IFB deposit of our Bank constituted 15% of the total corporate deposit portfolio which is similar to that of last year.

Table 7: IFB Deposit by Type

IFB deposit By Type	Amount in Birr		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Wadi'ah deposits	3,992M	3,688M	8	61.7	75.6
Amana deposits	2,166M	1,179M	84	33.5	24.2
Mudarabah Deposits	314M	12M	2,608	4.8	0.2
Total	6,471M	4,878M	32.7	100.0	100.0

4.2 IFB Financing

At the close of the reporting period, the total IFB Financing availed to different economic sectors reached over Birr 4.65 billion, up by Birr 1.1 billion (31% growth) from that of last year's similar period. As a result, the IFB Financing to deposit ratio of our Bank stood at 72% at the end of June 30, 2022. In terms of sector distribution, the IFB financing portfolio of our Bank covered a wide range of sectors of the economy. Among these, Domestic trade Services took (25.2%) followed by Export (24%), Construction (21%), and Agriculture (11.8%). The IFB financing outstanding balance has reached 14.5% of the total corporate consolidated Loans and Advances plus IFB financing.

Table 8: IFB Financing by Type

IFB Financing by Economic Sector	Amount in Birr		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Murahabah Financing- DTS	1,169 M	972 M	20.27	25.18	27.45
Murahabah Financing- Export	1,126 M	261 M	331.17	24.24	7.37
Murahabah Financing- Construction	959 M	980 M	(2.17)	20.64	27.66
Murahabah Financing- Agriculture	545 M	571 M	(4.62)	11.72	16.12
Murahabah Financing- Industry	518 M	463 M	11.82	11.15	13.08
Murahabah Financing- Import	156 M	164 M	(4.80)	3.36	4.63
Murahabah Financing- Transport and Communication	126 M	76 M	65.60	2.72	2.16
Murahabah Financing- Hotel and Tourism	25 M	38 M	(34.10)	0.54	1.08
Muruhabah Financing- Consumer and Personal	21 M	16 M	28.80	0.44	0.45
Total	4,645M	3,542M	31.13	100.0	100.0

4.3 IFB Foreign Currency Generation

At the end of the financial year under review, the IFB wing generated a total foreign currency of USD 23.30 million from export proceeds showing a growth of 52% from last year's similar period. During 2021/22, IFB's foreign currency generation contributed 8.3% of aggregate corporate total foreign currency generation.

4.4 IFB Income

The IFB wing has generated a total income of Birr 490 million during the financial year 2021/22. Out of the total corporate income of our Bank, IFB income constituted 8.5%.

Table 9: IFB Income by Type

IFB Income	Amount in Birr		% Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Income from Murahabah Financing	358M	326M	10	73.1	78.3
Fee and commission income	116M	79M	46	23.6	19.1
Other operating income	16M	11M	46	3.3	2.7
Total	490M	416M	17.7	100.0	100.0

4.5 IFB Expense

During the period under review, the total expense of IFB reached Birr 148 million showing a 28% increment from that of last year's similar period.

Table 10: IFB Expense by Type

IFB Expense	Amount in Birr		%Growth	%Share	
	2021/22	2020/21		2021/22	2020/21
Personnel expenses and other operating Expenses	108M	108M	(0.30)	73	93
Distribution to depositors- IFB Products	31M	1M	3,880.96	21	1
Loan impairment charge	9M	7M	27.63	6	6
Total	148M	116M	27.8	100.0	100.0

4.6 IFB Profit

During the financial year 2021/22, the IFB wing generated a profit of Birr 342 million showing a growth of 14% from last year's similar period.

4.7 IFB Window Services and Full-Fledged IFB Branches

Oromia Bank has been providing window-based interest-free banking services through almost at all branches starting from the introduction of services in our country. Immediately after the issuance of the NBE's directive that allowed the establishment of full-fledged IFB branches, our Bank opened several IFB-dedicated branches in Finfinne City and other towns. Currently, our Bank is providing window-based Sharia-compliant Interest-Free Banking Services at almost all of its conventional branches and in 13 newly opened full-fledged IFB branches.

4.8 IFB Customer Base

In terms of customer base, the number of IFB customers is significantly increasing year-on-year and reached 828,481 showing an increment of 35.6% from its last year's customer base of 610,758. The number of IFB borrowers also reached 842 just at the end of the reporting year. This indicates that the customers have developed big trust in our services as we are dedicated to offering the products/services that best fit our esteemed customers' banking needs. Besides, consistent growth in the customer base of the IFB services has significantly increased transactional accounts and volume. Hence, we strongly believe that establishing customer relationships alongside the acquisition of new customers underpin the sustainable growth of our business.

5. CORPORATE GOVERNANCE STATEMENT

5.1 Appointment, Composition, Size, and Qualifications of the Board of Directors

Members of the Board of Directors (BOD) of our Bank were nominated and elected by the shareholders through a well-established and transparent process handled by an independently organized Nomination Committee and subsequently approved by the NBE.

The shareholders voted, in proportion to their shareholding, for the candidates presented to them by the nomination and election committee at the General Meeting of shareholders. The top nominees in order of the number of votes they earned were submitted to the regulator (NBE) for review and approval. After ascertaining that the nominees meet the fit and proper requirements laid down in the relevant directives, the National Bank of Ethiopia approved the appointment of the Directors for the term of three years. The current Board of Directors consists of 11 members, who meet the requirement of a mix of core competencies, representation of the interest of non-influential shareholders, and educational qualification as per the corporate governance directives of NBE.

5.2 Structure of the Board

The BOD has a Chairperson, a Deputy Chairperson, a Secretary, and five sub-committees; namely: Branch Transformation, IT, and Marketing Affairs Subcommittee; HR, Projects, and Investment Sub-Committee; IFB, Credit, and IBS Affairs Subcommittee; Audit-Sub Committee; and Risk Management and Compliance Sub-Committee.

5.3 The Functions of the Board

The BOD has ultimate oversight responsibility for the development and implementation of the Bank's appropriate business strategy and financial soundness, the decision on key personnel, internal organization, governance structure and practices, and risk management and compliance requirements.

5.4 Roles of the Subcommittees of the Board of Directors

Branch Transformation, IT, and Marketing Affairs Subcommittee:

Chaired by Fanta Tesgera (Ph.D.), the Branch Transformation, IT, and Marketing Affairs Board Subcommittee consist of five Directors. The committee supervises the proper implementation of the **Branch Transformation & Digital Banking, Corporate Rebranding & Marketing, and IT** functional strategies, which are part of the third five years strategic plan of our Bank. The committee, whose members have diverse knowledge, talent, and experience, is effectively directing and supporting the management to effectively implement the aforementioned three functional strategies.

HR, Projects, and Investment Affairs Sub-Committee:

Chaired by Dr. Assefa Seme, the Human Resource, Projects, and Investment Affairs Board Subcommittee consists of five Directors. The committee supervises the proper implementation of the **Human Resource** functional strategy, which is part of the third strategic plan of the Bank, as well as the proper management of the projects and investments the Bank undertakes. The committee, whose members have diverse knowledge, talent, and experience, is effectively directing and supporting the management to effectively carry on the aforementioned major duties.

IFB, Credit, and IBS Affairs Subcommittee:

Chaired by Mr. Samuel Tesfa (a member of the Board representing Oromia Insurance Company (S. Co.), the **Interest-Free Banking, Credit, and International Banking Services** Affairs Board Subcommittee consists of five Directors. The committee supervises the proper implementation of the Interest-Free Banking, Credit, and International Banking Services functional strategies, which are part of the third strategic plan of the Bank. The committee, whose members have diverse knowledge, talent, and experience, is effectively directing and supporting the management to effectively implement the aforementioned three functional strategies.

Audit-Sub Committee:

Chaired by Mr. Mulugeta Tujuba, the Audit Board Subcommittee consists of three Directors. The committee supervises the proper performance of the audit activities of our Bank with the view of ensuring that effective internal control systems and processes are put in place and properly functioned. The committee, whose members have diverse knowledge, talent, and experience, is effectively supervising the performance of the auditing function of our Bank.

Risk Management and Compliance Sub-Committee:

Chaired by Mr. Ajema Gondel, Risk Management and Compliance Board Subcommittee consist of three Directors. The committee supervises the proper performance of the Risk Management and Compliance activities of the Bank with the view of monitoring the

Bank's risk exposure and risk management and ensures compliance of the Bank's overall operation with various pertinent laws of the land and own policies and procedures. The committee, whose members have diverse knowledge, talent, and experience, is effectively supervising the Risk Management and Compliance functions of the Bank.

5.5 Directors' Allowance

The directors are entitled to a monthly allowance of Birr 10,000.00 as well as a maximum annual remuneration of Birr 150,000.00 each, which are effected in accordance with the pertinent provisions of NBE directive No SBB/63/2016.

5.6 Internal Audit, Risk Management and Compliance

Oromia Bank has well-organized and properly resourced Internal Audit, Risk Management and Compliance units functionally reporting to the BOD and administratively to the CEO. The BOD discusses and takes proper actions on reports of these functions at a minimum on monthly basis.

5.7 The Chief Executive Officer and Senior Management

Our Bank's day-to-day operations are run by the Chief Executive Officer and members of Senior Management nominated by the BOD and approved by the NBE in accordance with the pertinent NBE directives. The Chief Executive Officer has established various committees which are assisting him in successfully discharging his responsibilities in an effective and efficient manner.

6. EXTERNAL AUDITORS

Degefa & Tewodros Audit Service Partnership is OIB's external auditors nominated by the General Assembly of Shareholders and Approved by NBE.

7. FUTURE PLANS

Our Bank will further strengthen and continue investing in and implementing technology-based banking with the view of providing superior customer experience to its esteemed customers across all the touch-points on top of offering a wide range of products and services in ways to meet its current needs and anticipating the future trends through robust digital offerings. In the years to come, our Bank will add more focus on improving operational efficiency by enhancing a cost-effective operating model to deliver value to our customers while also improving shareholder value. This also involves further improving processes, systems, and operations in all the customer touch-points while continuously putting in place the right talent.

In the new fiscal year under consideration, our Bank has planned to open additional conventional and Interest-Free Banking branches at different outlets in a bid to enhance the customer base of our Bank and to create financial accessibility to our society at large in line with its 3rd five years strategic plan and three years Board Agenda. Moreover, the OMNI Channel project will be completed in the coming months and position our Bank in providing superior customer service. Furthermore, the implementation of ITIL and COBIT IT frameworks, Digital lending, Chabot, and other systems will be commenced in the fiscal year under consideration in a bid to leapfrog in terms of offering digital services to our customers.

Human resource development is among our Bank's primary endeavors. Thus, our Bank will continue to emphasize on its staff development and capacity building at all levels through providing local and overseas training to drive the right competency which will help our Bank to speed up the implementation of the planned transformational initiatives and to withstand the upcoming fierce competition in the banking sector.

Our Bank will take proactive actions to withstand the competition coming from new entrants and foreign Banks on top of the action taken so far. Moreover, our Bank is working towards joining the Ethiopian Stock Market to maximize the opportunities ahead of time. Furthermore, our Bank will work on the area of Banking Innovation Hub with the view of making our Bank the hub of superior customer experience.

During the fiscal year under review, our Bank has been in the forefront of discharging its corporate social responsibility by donating about Birr 18.1 million in support of social, and humanitarian issues, and in response to calls for national development initiatives and in support of draught-affected communities. Our Bank will scale up its response to the society's concerns and continue discharging its corporate social responsibility in multiple ways.

Our Bank will finalize the ongoing contractor selection shortly and commence construction of multi-purpose buildings on the land secured from the Gelan City Administration in the fiscal year under consideration. We are also exerting relentless effort to finalize securing land from Finfinne City Administration at the prime site at Senga Tera (Future 'Financial Hub') despite all challenges, for OB Future Headquarters Park. Moreover, our Bank is working hard to secure plots of land in different major towns in Oromia and other regional states for enhancing the asset base and smooth banking operations of our Bank.

8. OVERVIEW OF THE 3rd FIVE-YEAR CORPORATE AND FUNCTIONAL STRATEGIES IMPLEMENTATION

Our Bank has intensified the implementation of its 3rd five years corporate and functional strategies coupled with 3 years Board Agenda to excel in its key performance indicators (KPIs) and to withstand the fierce competition coming from the entrance of foreign Banks in the years to come. Definitely, the successful execution of the 3rd five years strategy takes our Bank to the driving seat in the Banking Industry in general and to excel in institutional development in particular. The implementation of the strategy is well monitored by the Management and Board of Directors.

9.REMUNERATION STATEMENT OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

In accordance with article 314 sub article 1 and 2 of the Commercial law Oromia International Bank hereby disclose remuneration paid and other kind of benefits given to each director and the Chief Executive Officer.

Table 11.Remuneration paid for the Directors

S/N	Name of Director	Annual Allowance Paid	Annual Remuneration	Loan Granted
1	Gemechu Waktola (Ph.D.)	120,000.00	141,666.67	
2	Obbo Mulugeta Tujuba	120,000.00	150,000.00	
3	Oromia Insurance SC (Represented by Obbo Samuel Tesfa)	120,000.00	150,000.00	
4	Dr. Assefa Seme	120,000.00	150,000.00	
5	Hon. Ajema Gondel	120,000.00	150,000.00	
6	Obbo Deressa Kenea	120,000.00	150,000.00	
7	Obbo Worku Homa	120,000.00	150,000.00	
8	Hon. Eshetu Temesgen (Ph.D.)	120,000.00	116,666.67	
9	Hon. Gudeta Gelalcha	120,000.00	75,000.00	
10	Girma Balcha (Ph.D.)	120,000.00	150,000.00	
11	Fanta Tesgera (Ph.D.)	120,000.00	150,000.00	✓
Total		1,320,000.00	1,533,333.33	

Table 12.Remunartion paid for the Chief Executive Officer

S/N	Name	Annual Basic Salary	Annual Repre-sentation Allowance	Annual Housing Allowance	Annual Provident Fund	Loan Granted
1	Obbo Teferi Mekonen	2,400,000.00	144,000.00	480,000.00	360,000.00	✓

Note: In addition, the CEO is provided with vehicle and unlimited mobile allowance.

Project Financed


MNS Real Estate

Dalol Oil s.c

Our New Brand Inauguration Ceremony




Events of Our Bank Held During the Year

12th Annual General Meeting of Shareholders


Annual Management Meeting


Exporters' Day


Adama District Office Building Inauguration Ceremony

Oromia Bank
Baankii Oromiyaa ኦሮሚያ ባንክ

The most Powerful Card in your wallet.

OroCard

The Power on your Side.

Oromia Bank is proud to empower your digital banking needs. Get your card now to avail this new exciting opportunities. What is more, you can replace your existing card at no additional charges by applying at any of our branches today!

Serving to Empower You

Oromia Bank
Sharia Advisory Committee (SAC)
Statement for the Fiscal Year Ended June 30, 2022

Pursuant to the Oromia Bank Corporate Governance Framework and its provisions related to Interest- Free Banking Services, and in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions Shariah Standard and the Bank's Sharia Committee Charter, the SAC presents the following report for the fiscal year ended 30 June 2022.

Interest-Free Banking wing offers a wide range of deposits, financing, and various banking products and services comparable to other banking services in Oromia Bank irrespective of race, religion, or company.

We are honored to announce that OB through its IFB wing has mobilized a deposit of Birr 6.47 billion, generated Foreign Currency of USD 23.3 million, and earned profit before tax of Birr 342 million from Interest-Free Banking business during the budget year ended 30 June 2022.

The Shariah Advisory Committee of the Bank has been highly dedicated to ensuring the best quality services and demonstrated commitment to Shariah compliance in the products, process, documentation, marketing, and other related matters applicable by the Bank during the fiscal year.

Besides regular banking businesses, the Shariah Advisory Committee also supports the development of other Shariah-based products and services initiated by the Bank and awareness creation to fulfill the needs of the Ummah at large.

It is our responsibility to form an independent opinion, based on our review of the Bank's operation, and report to you. Our monitoring comprised of reviewing several questions and inquiries forwarded by the Bank on issues related to Sharia compliance on which we delivered our opinions. We have also undertaken several consultation meetings and exchanged views, with OB's board members and management, on the overall Sharia compliance assurance mechanism.

Based on the review of various Interest-Free Banking reports and to the best of our knowledge, we are of opinion that:

a) The mechanism in place to ensure Shari'a compliance with overall operations and transactions of IFB services is workable and up to the general standard of Interest- Free Banking operational modalities;

b) The contracts, transactions, and dealings entered in by the Bank during the year ended June 30, 2022, are generally in compliance with the Sharia standards;

c) All amounts realized from sources like penalties were not incorporated into the Bank's revenue. It is placed and reported separately in the charity account;

d) The allocation of profit and charging of losses related to the investment accounts conform to the basis that had been approved by SAC in accordance with Islamic Shari'a laws and rules;

e) The responsibility of paying Zakat falls on the shareholders. The Bank's Management is not authorized to pay Zakat directly, as there is no law to that effect, and the Bank's Articles of Association does not stipulate such action nor do the decisions of the General Assembly or the shareholders' authorization.

f) The Sharia Advisory Committee (SAC) has been provided with adequate resources enabling it to discharge its duties and responsibilities.

We hope and anticipate that IFB services will continue to contribute more by upholding similar Sharia compliance dedication, implementations, and applications without undermining the ever-ending quest of customers and by addressing the banking needs of the unbanked community, serving the missing middle and accommodating all those who are far from Banks due to their value system.

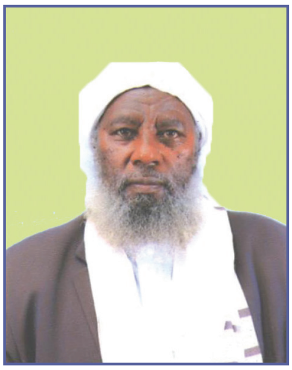
Finally, the Sharia Compliance Advisory Committee takes this opportunity to express its gratitude to the Board of Directors, the Bank's Management, and staff for their cooperation and their keenness in understanding and adherence to the rules of the noble Sharia Principles.

Sheik Haji Ibrahim Tufa
SAC Chairperson

Dr. Ahmed Abdurrahman
SAC Vice Chairperson

Sheik Mahmud Hussain
SAC Member

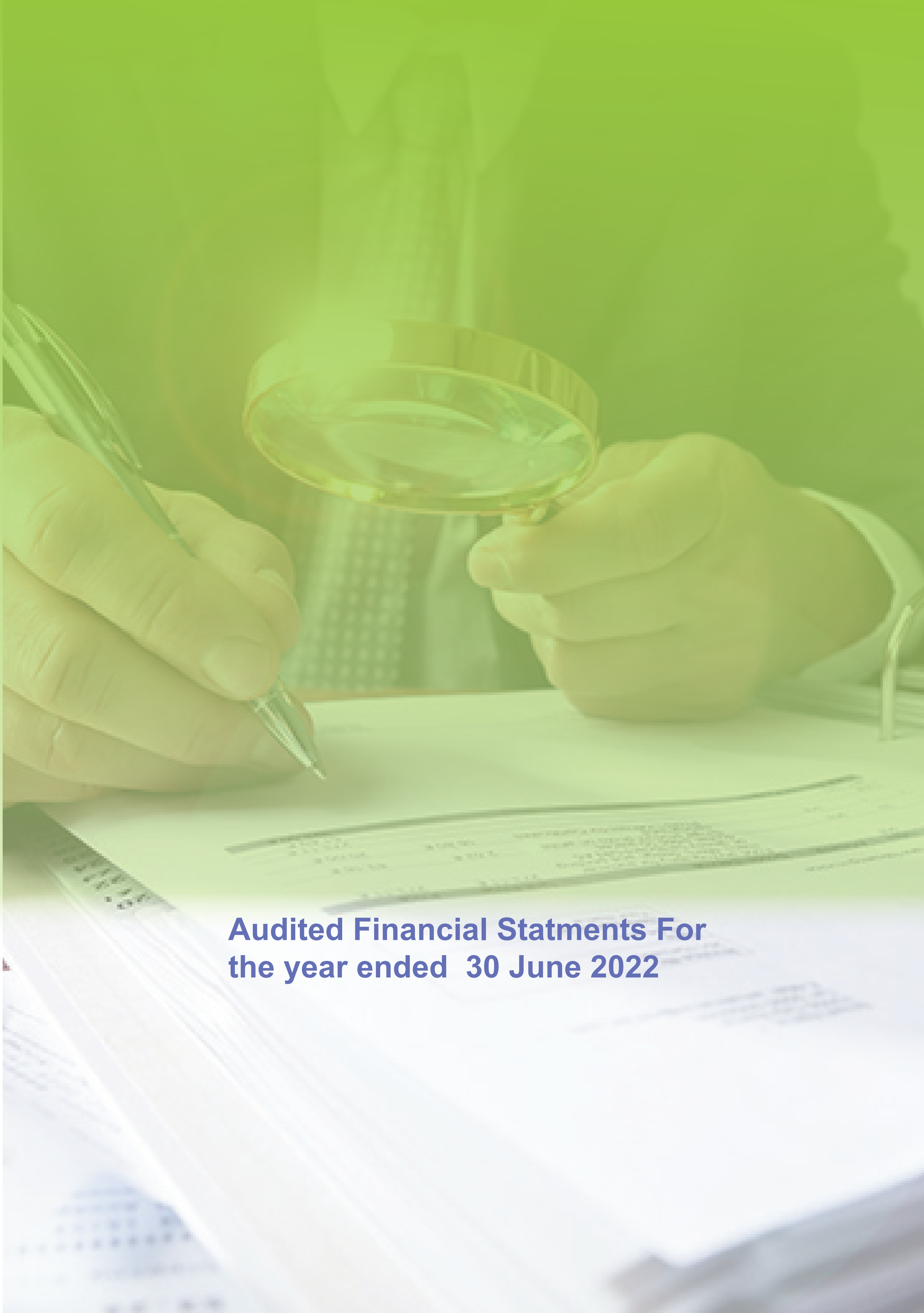
Shariah Advisory Committee (SAC) Members



Sheik Haji Ibrahim Tufa
SAC Chairperson

Dr. Ahmed Abdurrahman
SAC Vice Chairperson

Sheik Mahmud Hussain
SAC Member



Audited Financial Statments For the year ended 30 June 2022

Oromia International Bank S.C
Directors, professional advisers registered office
For the years ended 30 June 2022

Company registration number
KK/AA/3/0007345/2007

Directors (As of 30 June 2022)

Gemechu Waktola (PhD)	Chairperson	Appointed March 25, 2021
Obbo Mulugeta Tujuba	Vice-Chairperson	Appointed April 05, 2018
Dr. Assefa Seme	Member	Appointed April 05, 2018
Obbo Ajema Gondel	Member	Appointed April 05, 2018
Obbo Deressa kenea	Member	Appointed January 29, 2020
Obbo Worku Homa	Member	Appointed January 29, 2020
Obbo Samuel Tesfa (representing) Oromia Insurance Company s.c)	Member	Appointed March 25, 2021
Eshetu Temesgen (PhD)	Member	Appointed March 25, 2021
Obbo Gudeta Gelalcha	Member	Appointed March 25, 2021
Girma Balcha (PhD)	Member	Appointed March 25, 2021
Fanta Tesgera (PhD)	Member	Appointed March 25, 2021

Executive Management (As of 30 June 2022)

Obbo Teferi Mekonnen	Chief Executive Officer	Appointed 01 June 2020
Obbo Geleta Bekuma	Chief Officer IT Infrastructure & Services	Appointed 01 June 2018
Obbo Jote Kenate	Chief Officer Corporate Strategy & Transformation	Appointed 01 August 2019
Obbo Fayisel Yassin	Chief Officer Corporate Banking and International	Appointed 20 January 2021
Obbo Worku Lema	A/Chief Officer Retail & SME Banking	Appointed on acting basis 18 March 2022
Obbo Alemayehu Demise	Deputy Chief Officer Corporate Support	Appointed 01 July 2019
Obbo Tesfaye Deressa	Deputy Chief Officer Credit Operation Management	Appointed 01 January 2022
Oboo Gelana Leta	A/Deputy Chief Officer Human Resource	Appointed on acting basis 01 January 2022
Obbo Belay Bayisa	A/Deputy Chief Officer Marketing and Partenership	Appointed on acting basis 01 January 2022
Obbo Berhanu Edea	Chief Internal Audit	Appointed 21 April 2016
Obbo Ketema Mengesha	Chief Risk Management and Compliance	Appointed 20 February 2017

Independent Auditor

Degefa & Tewodros
Audit Service Partnership Addis
Ababa
Ethiopia

Corporate office

P.O.Box 27530/1000
Bole Road
Oromia Bank Building
Addis Ababa
Ethiopia

Company secretary

Solomon Geda P.O.Box
27530/1000
Bole Road
Oromia Bank Building
Bole Road, Kirkos Addis
Ababa, Ethiopia

Oromia International Bank S.C
Report of the directors
For the years ended 30 June 2022

The directors submit their report together with the financial statements for the year ended 30 June 2022, to the members of Oromia Bank S.C. ("OB or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation

Oromia Bank share company has been established in Addis Ababa as per the Commercial Code of Ethiopia 2021, and it was licensed by the National Bank of Ethiopia in September 2008 with the objective to engage in banking service in accordance with the Banking Business Proclamation number 592/2008. The Bank started operation in October 2008.

Principal activities

Oromia Bank S.C (OB) engages in full-fledged banking business as per Banking Business Proclamation of Ethiopia number 592/2008. Accordingly, it accepts deposits in the form of current (demand) deposits, saving deposits and fixed time deposits. To address the need of certain types of its customers some features are added on those deposit types such as diaspora deposit accounts. It also extends different types of credit products based on the need of its customers. Some of its credit products have terms ranging from short term to long term while others have revolving nature such as over draft and pre-shipment facilities. International trade facilitation through letter of credit and other means of payment is the other major business of the Bank. The Bank also undertakes both local and international money remittance services. Moreover, it has specialized services such as interest free banking services, card banking services, mobile banking and agent banking services.

Results

The Bank's results for the year ended 30 June 2022 are set out below. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Interest income	4,109,366	3,462,577
Profit / (loss) before tax	1,518,572	1,128,965
Tax (charge) / credit	(317,497)	(256,978)
Profit / (loss) for the year	1,201,075	871,987
Other comprehensive income / (loss) net of taxes	7,876	11,007
Total comprehensive income / (loss) for the year	1,208,951	882,995

Directors

The directors who held office during the year and to the date of this report are set out on page 1.

Solomon Geda
Company Secretary

Oromia International Bank S.C
Statement of directors' responsinilities
For the years ended 30 June 2022

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 reporting standards, whether their designation changes or they are replaced, from time to time.

The Directors are responsible for the preparation and fair presentation of these financial statements in conformity with reporting requirements in Ethiopia and in the manner required by the Commercial Code of Ethiopia of 2021, 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 to 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 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 2021 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:

Gemechu Waktola (Ph.D)
Chairperson of the Board of Directors

Obbo Teferi Mekonnen
Chief Executive Officer

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Degefa and Tewodros Audit Services Partnership

P.O.Box 8118
E-mail: deg@ethionet.et
chalatewodros@gmail.come
Addis Ababa Ethiopia

☎,251-011-466 11 57 251-96-621 59 21
91- 112 16 57
አዲስ አበባ ኢትዮጵያ

Partners
Degefa Lemessa, B.A, FCCA & Tewodros Hailu, M.A, FCCA

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF OROMIA BANK SHARE COMPANY

OPINION

We have audited the accompanying financial statements of OROMIA *BANK SHARE COMPANY* which comprise the statement of profit and loss and other comprehensive income for the year ended 30 June 2022, statement of financial position as at 30 June 2022, statement of changing equity and statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of OROMIA *BANK SHARE COMPANY* as at 30 June 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by IASB.

As required by the commercial code of Ethiopia, based on our audit we report as follows:

i) Pursuant to Article 349 (1) of the Commercial Code of Ethiopia 2021 and based on our reviews of the board of directors' report, we have not noted any matter that we may wish to bring to your attention.

ii) Pursuant to article 349 (2) of the commercial code of Ethiopia 2021, we recommend the financial statements be approved.

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

KEY AUDIT MATTER

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters. We have determined that there is no key audit matter to be communicated in our report.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

Auditors Responsibility for the Audit of the financial Statements

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

Degefa & Tewodros Audi Services
Partnership
Chartered Certified Accountants

Addis Ababa
November 1, 2022

Oromia International Bank S.C
Statement of Profit or Loss and Other Comprehensive income
For the year ended 30 June 2022

Income from Interest free financing and investment products	7	358,343	326,051
Interest expense	8	(1,653,553)	(1,397,375)
Distribution to depositors- Interest Free Banking Products	8	(31,370)	(788)
Net interest income and income from Interest Free Banking products net of distribution to depositors		2,782,786	2,390,465
Fee and commission income	9(a)	1,019,769	619,558
Fee and commission expense	9(b)	-	-
Net fees and commission income		1,019,769	619,558
Other operating income	10	302,565	112,721
Total operating income		4,105,120	3,122,744
Loan impairment charge	11	(15,689)	(47,445)
Impairment losses on other assets	12	(51,766)	1,401
Net operating income		**4,037,665**	**3,076,700**
Personnel expenses	13	(1,542,833)	(1,242,546)
Amortisation of intangible assets	21	(19,498)	(12,239)
Depreciation and impairment of property, plant and equipment	23	(109,281)	(94,257)
Amortization of right of use assets	22	(216,350)	(179,827)
Interest expense on lease	14 (a)	(32,536)	(28,695)
Other operating expenses	14 (b)	(598,595)	(390,170)
		(2,519,093)	**(1,947,735)**
Profit before tax		**1,518,572**	**1,128,965**
Income tax expense	15 (a)	(317,497)	(256,978)
Profit after tax		**1,201,07**	**871,987**
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations	28	(9,071)	(12,466)
Deferred tax on Remeasurement difference benefits obligations		2,721	3,740
		(6,350)	**(8,726)**
Net change in equity investment at FVOCI	19	20,322	28,190
Deferred tax on change in equity investment at FVOCI		(6,097)	(8,457)
		14,226	**19,733**
Total other comprehensive income for the period		**7,876**	**11,007**
Total comprehensive income for the		**1,208,951**	**882,995**
Earnings per share of Ethiopian Birr 1000	30	**307**	**270**

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

The financial statements were approved and authorised for issue by the Directors and Management on October 27, 2022 and were signed on their behalf by:

Gemechu Waktola (PhD)
Chairperson of the Board of Directors

Obbo Teferi Mekonnen
Chief Executive Officer

Oromia International Bank S.C
Statement of Financial position
For the year ended 30 June 2022

	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
ASSETS			
Cash and cash equivalents	16	9,799,766	7,061,051
Loans and advances to customers	17	27,216,536	21,959,098
Interest Free Financing	18	4,038,858	2,985,313
Non-current assets held for sale	24	44,399	37,971
Investment securities:			
- Financial assets at fair value through OCI	19(a)	219,983	165,695
-Financial assets at amortized cost	19(b)	5,851,603	6,322,332
Other assets	20	2,383,340	1,495,625
Intangible assets	21	116,524	76,314
Property, plant and equipment	23	1,435,614	910,730
Right of use leased assets	22	938,555	676,911
Total assets		**52,045,177**	**41,691,040**
LIABILITIES			
Deposits from customers	25	37,050,177	29,467,589
Interest free customers' deposits	26	6,471,139	4,877,923
Current tax liabilities	15 (a)	316,081	249,460
Deferred tax liabilities	15(d)	33,626	29,217
Lease liabilities	38	345,404	281,243
Other liabilities	27	891,804	1,243,352
Retirement benefit obligations	28	94,078	72,362
Total liabilities		**45,202,309**	**36,221,146**
EQUITY			
Share capital	29	4,364,892	3,463,660
Share premium		8,172	8,377
Retained earnings	31	869,024	735,467
Legal reserve	32	1,375,194	1,074,925
Regulatory risk reserve	33	195,869	165,620
Other reserve		29,721	21,845
Total equity		6,842,872	5,469,892
Total equity and liabilities		**52,045,177**	**41,691,040**

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

The financial statements were approved and authorised for issue by the Directors and Management on October 27, 2022 and were signed on their behalf by:

Gemechu Waktola (PhD)
Chairperson of the Board of Directors

Obbo Teferi Mekonnen
Chief Executive Officer

Oromia International Bank S.C
Statement of Change in equity
For the year ended 30 June 2022

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Legal reserve Birr'000	Other Reserve Birr'000	Regulatory risk reserve Birr'000	Total Birr'000
As at 1 July 2021		3,463,660	8,377	735,467	1,074,925	21,845	165,620	5,469,894
Profit for the year	31	-	-	1,201,075	-	-	-	1,201,075
Adjustment for under paid tax	31	-	(205)	-	-	-	-	(205)
Other comprehensive income:		-	-		-	-	-	-
Net change in equity investment at FVOCI	19	-	-	-	-	14,226	-	14,226
Re-measurement gains on defined benefit plans (net of tax)	28	-	-	-	-	(6,350)	-	(6,350)
Prior year (over)/ under provision	31	-	-	-	-	-	-	-
Directors' Share on Profit		-	-	(1,533)	-	-	-	(1,533)
Proceeds from issue of shares	31	362,570	-	-	-	-	-	362,570
Dividend capitalised	31	538,662	-	(538,662)	-	-	-	-
Transfer to legal reserve	31	-	-	(300,269)	300,269	-	-	-
Dividends paid	31	-	-	(157,285)	-	-	-	(157,285)
Dividend held in payable account	31		-	(39,520)	-	-	-	(39,520)
Transfer from regulatory risk reserve	33	-	-	-	-	-	-	-
Suspended Interest transferred to regulatory risk reserve account	33	-	-	-	-	-	-	-
Suspended Interest transferred to Retained earnings being collected in cash	33	-	-	10,613	-	-	(10,613)	-
Transfer to regulatory risk reserve for excess NBE Provission for other Assets	33			24,030			(24,030)	-
Transfer to Regulatory risk reserve for excess NBE provissions for Loans and Advances	33	-	-	(64,891)	-	-	64,891	-
Total Change in equity for the year		**901,232**	**(205)**	**133,558**	**300,269**	**7,876**	**30,248**	**1,372,977**
As at 30 June 2022		**4,364,892**	**8,172**	**869,024**	**1,375,194**	**29,721**	**195,869**	**6,842,872**

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

The financial statements were approved and authorised for issue by the Directors and Management on October 27, 2022 and were signed on their behalf by:

Gemechu Waktola (Ph.D)
Chairperson of the Board of Directors

Teferi Mekonnen
Chief Executive Officer

Oromia International Bank S.C
Statement of Cash flow
For the year ended 30 June 2022

	Note	30 June 2022 Birr'000	30 June 2021 Birr'000
Cash flows from operating activities			
Cash generated from operations	34	1,742,356	2,140,537
Defined benefits paid	28	(7,224)	(3,730)
Income tax paid prior year adjustment		-	(5,324)
Income tax paid	15	(249,460)	(197,069)
Net cash (outflow)/inflow from operating activities		**1,485,671**	**1,934,414**
Cash flows from investing activities			
Proceed disposal of fixed asset		1,656	495
Purchase of investment securities	19	436,763	(268,606)
Purchase of intangible assets	21	(59,708)	(46,232)
Purchase of property, plant and equipment	23	(637,740)	(191,859)
Net cash (outflow)/inflow from investing activities		(259,029)	(506,201)
Cash flows from financing activities			
Proceeds from issues of shares	29	362,570	156,917
Payments of principal portion of the lease liability	38	-	-
Dividend paid	31	(189,966)	(161,588)
Directors' Share on Profit	31	(1,533)	(1,710)
Net cash (outflow)/inflow from financing activities		171,071	(6,381)
Net increase/(decrease) in cash and cash equivalents		**1,397,713**	**1,421,832**
Cash and cash equivalents at the beginning of the year	16	5,341,051	3,919,219
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	16	**6,738,764**	**5,341,051**

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

The financial statements were approved and authorised for issue by the Directors and Management on October 27, 2022 and were signed on their behalf by:

Gemechu Waktola (PhD)
Chairperson of the Board of Directors

Obbo Teferi Mekonnen
Chief Executive Officer

Certified Auditors in Ethiopia
Degefa and Tewodros Audit Service Partnership

OROMIA INTERNATIONAL BANK S.C.

1 General information

Oromia Bank S.C. ("the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established on September 18,2008 in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank registered office is at:

P.O.Box 27530/1000
Bole Road
Oromia International Bank Building Addis
Ababa
Ethiopia

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

2 Basis of preparation

a) Statement of compliance

The financial statements for the period ended 30 June 2022 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.

b) Basis of measurement

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

- Assets held for sale – measured at fair value less cost of disposal, and
- The present value of the defined benefit obligation less the net total plan assets, plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.
- Financial assets at FVTOCI are measured at fair value

c) Functional and Presentation of Currency

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

d) Use of estimates and judgements

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.

e) 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.

3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the bank.

(a) New standards, amendments and interpretations

(i) New standards, amendments and interpretations and effective adopted during the year

A number of new standards or amendments are effective from 1 July 2022 but they do not have a material effect on the Bank's financial statements. The below are amendments to standards that are effective for annual periods beginning after1 July 2022 in perspective of the bank and have not been applied in preparing these financial statements.

(ii)New standards, amendments and interpretations issued but not adopted

Standard	Description	Effective date	Impact
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non- current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. Earlier application is permitted.	Do not have a material effect on the Bank's financial statements.
IAS 16, Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	Annual reporting periods beginning on or after 1 January 2022	
IAS 37, Provision, contingent liabilities and contingent assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.	Do not have a material effect on the Bank's financial statements.

IFRS 3, Business combination	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.	The standard is not relevant for the Bank's reporting purpose as of now. The amendments shall be considered when the Bank gets involved in a transaction that involve business combination
IFRS 9, Financial Instruments	The final version of IFRS 9 "Financial Instruments" issued in July 2014 is the IASB's replacement of IAS 39 "Financial Instruments: Recognition and Measurement". The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.	The Bank applied the amendments.
Annual Improvements to IFRS Standards 2018–2020	IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.	The improvements are effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted.	Do not have a material effect on the Bank's financial statements.

IAS 12 amendments on deferred tax	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	The amendments are effective for annual periods beginning on or after 1 January 2023	The bank shall apply the amendment when due. The amendments are not expected to have an impact on the bank's financial statements.
Definition of Accounting Estimates (Amendments to IAS 8)	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.	Effective for annual reporting periods beginning on or after 1 January 2023.	Do not have a material effect on the Bank's financial statements.
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.	Effective for annual reporting periods beginning on or after 1 January 2023.	The bank shall apply the amendment when due. The amendments are expected to have an impact on the bank's financial statements.

3.1 Functional and presentation Currency

(a) Transactions and balances

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

(b) Transactions and balances

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

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

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

3.2 Recognition of income and expense

(i) Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance .

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

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of afinancial 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 amortisedcost 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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

For information on when financial assets are credit-impaired.

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVTOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases
- Interest expense presented in the statement of profit or loss and OCI includes:
- Financial liabilities measured at amortised cost; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities are considered 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

3.2.1 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income (for example commission on drafts, cash payment order (CPO), letter of credit (LC), guarantee etc.) are recognised on an accrual basis as the related services are performed.

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

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

3.2.2 Dividend income

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

3.2.3 Foreign Exchange revaluation gains and losses

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

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

3.3 Financial assets and liabilities

(a) Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortized cost as described below.

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is , derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchange and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost

Is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write – down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method

Is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(i) Recognition and initial measurement

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the
acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

• if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss);

• in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or

loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(ii) Classification and measurement of financial instruments financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- all other debt instruments (e.g., debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.
- However, the Bank may make the following irrevocable election /designation at initial recognition of a financial asset on an asset- by asset basis:

(i) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

(ii) the Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment explanation below,

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (nonrecourse loans). The Bank applies judgment in assessing whether the nonrecourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

• whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;

• the fair value of the collateral relative to the amount of the secured financial asset;

• the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;

• whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;

• the Bank's risk of loss on the asset relative to a full-recourse loan;

• the extent to which the collateral represents all or a substantial portion of the borrower's assets; and

• whether the Bank will benefit from any upside from the underlying assets.

Financial assets at FVTPL

Financial assets at FVTPL are:

• assets with contractual cash flows that are not SPPI; or/and

• assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

• assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 3.1 Fair value of financial instruments.

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

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. The Bank revalues its property at least after every 3 years and revalues motor vehicles at least once in every 2 years.

Renegotiated loans

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

Impairment of financial assets

In line with IFRS 9, the Bank assesses the under listed financial instruments for impairment using Expected Credit Loss (ECL) approach:

- Amortized cost financial assets;
- Debt securities classified as at FVTOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments and financial assets measured at FVTPL are not subjected to impairment under the standard.

Expected Credit Loss Impairment Model

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Bank follows a three-stage approach for impairment assessment based on changes in credit quality since initial recognition.

- **Stage 1** – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- **Stage 2** – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- **Stage 3** – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life time expected credit loss), unless there has been no significant increase in credit risk since origination.

Measurement of Expected Credit Losses

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

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- **12-month PDs** – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. The Bank obtains the constant and relevant coefficients for the various independent variables and computes the outcome by incorporating forward looking macroeconomic variables and computing the forward probability of default.
- **Lifetime PDs** – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9. The Bank obtains 3 years forecast for the relevant macroeconomic variables and adopts exponentiation method to compute cumulative PD for future time periods for each obligor.
- **EAD** – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

To estimate expected credit loss for off balance sheet exposures, credit conversion factor (CCF) is usually computed. CCF is a modelled assumption which represents the proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

It is a factor that converts an off-balance sheet exposure to its credit exposure equivalent. In modelling CCF, the Bank considers its account monitoring and payment processing policies including its ability to prevent further drawings during periods of increased credit risk. CCF is applied on the off-balance sheet exposures to determine the EAD and the ECL impairment model for financial assets is applied on the EAD to determine the ECL on the off-balance sheet exposures.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires that:

The Bank uses internal subject matter consultant to consider a range of relevant forward-looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments in order to support the calculation of ECLs.

Macro-economic variables taken into consideration include, but are not limited to, inflation, Exchange rate, Gross Domestic Product, debt, stratification and requires an evaluation of both the current and forecast direction of the macroeconomic cycle.

Macro-economic variables considered have strong statistical relationships with the risk parameters (LGD, EAD, CCF and PD) used in the estimation of the ECLs, and are capable of predicting future conditions that are not captured within the base ECL calculations.

Forward looking adjustments for both general macro-economic adjustments and more targeted at portfolio industry levels. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Macroeconomic factors

The Bank relies on a broad range of forward-looking information as economic inputs, such as: GDP growth, debt, household spending, consumer price index, inflation rates and foreign exchange rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The macroeconomic variables and economic forecasts as well as other key inputs are reviewed and approved by management before incorporated in the ECL model. Any subsequent changes to the forward-looking information are also approved before such are inputted in the ECL model. The macro- economic variables are obtained for 5 years in the future and are reassessed every 6 months to ensure that they reflect prevalent circumstances and are up to date.

Where there is a non-linear relationship, one forward looking scenario is never sufficient as it may result in the estimation of a worst-case scenario or a best case scenario. The Bank's ECL methodology considers weighted average of multiple economic scenarios for the risk parameters (basically the forecast macroeconomic variables) in arriving at impairment figure for a particular reporting period. The model is structured in a manner that the final outcome, which is a probability cannot be negative.

SICR is assessed once there is an objective indicator of a deterioration in credit risk of customer. In addition, the Bank as part of its routine credit processes perform an assessment on a quarterly basis to identify instances of SICR.

Multiple forward-looking scenarios

The Bank determines allowance for credit losses using three probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Bank prepares the scenarios using forecasts generated by credible sources such as Business Monitor International (BMI), International Monetary Fund (IMF), Ministry of Finance (MF), World Bank (WB), and Ethiopian Central statistical Agency (ECSA).

The Bank estimates three scenarios for each risk parameter (LGD, EAD, CCF and PD) – Base, Upside and Downside, which in turn is used in the estimation of the multiple scenario ECLs. The 'Base case' represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. 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, credit risk and credit losses.

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region.

The Bank adopts a multi factor approach in assessing changes in credit risk. This approach considers: Quantitative (primary), Qualitative (secondary) and Back stop indicators which are critical in allocating financial assets into stages.

The quantitative models considers deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors considers information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc.

A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do

not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 90 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

Definition of Default and Credit Impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is '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; others include death, insolvency, breach of covenants, etc.
- ✓ A breach of contract such as a default or past due event;
- ✓ The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- ✓ It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- ✓ The disappearance of an active market for a security because of financial difficulties.
- ✓ The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. 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, loans that are more than 90 days past due are considered impaired.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the

interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially

different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- ✓ Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- ✓ A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Bank considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation. In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms. When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:
- ✓ The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- ✓ The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Banks's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Bank

performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit impaired. The loss allowance on forborne loans will generally only be measured based on 12- month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is

recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Collateral Repossessed

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

Write off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is 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. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.
- for loan commitments and financial guarantee contracts: as a provision; and
- 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.

Financial Liabilities

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 recognised 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

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see below:

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the banking is provided internally on that basis; or
- It forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in

the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.
However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 3.1

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Modification and derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Bank recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Bank recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Bank Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

3.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Bank or the counterparty.

3.5 Interest Free Financing and Investment products

In addition to conventional banking products, the Bank offers its customers certain non-interest-based banking products which are approved by its Sharia'h Supervisory Committee.

All Interest Free banking products are accounted for in conformity with the accounting policies described below:

With regard to Interest free banking products, the ECL policy of interest free financing products are similar with the policy stated above.

(i) Definition of Key Terms

Murabaha

An agreement whereby the bank sells to a customer a commodity or a property which the bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

Istisna

An agreement between the bank and a customer, whereby the bank develops and sells a property to the customer according to the specifications agreed upon. The bank may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre-agreed date and against fixed price.

Ijarah

An agreement whereby the bank (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

Salam

A contract whereby the bank purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The bank makes profit on Salam transactions, when the Salam commodities are received from the Salam customer and subsequently sold to a third party at profit.

Interest Free Export Financing Facility

A non-profit bearing financing enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Mudaraba

A contract between the bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Musharaka

A contract between the bank and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either ongoing basis or for a limited time, during which the bank enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

Accounting policy for Interest Free Financing and Investment Products

a) Murabaha financing

Murabaha financing receivables are deferred sale agreements whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Amounts receivable from Murabaha financing receivables are initially stated in the Statement of Financial Position at selling price. And subsequently, they shall be stated at selling price less unearned income and provision for impairment at the reporting date.

b) Istisna

Istisna is an agreement between the Bank and a customer whereby the Bank sells to the customer an asset which is either constructed or manufactured by the purchaser on behalf of the Bank according with agreed- upon specifications, for an agreed-upon price.

Istisna'a assets in progress represent disbursements made as well as the accrued income as of the date of the statement of financial position against assets being either constructed or manufactured.

After completion of the project, the Istisna asset is transferred to the Istisna receivable account and carried at the value of amounts disbursed, plus income accumulated over the manufacturing period, less ECL.

c) Ijarah assets

Ijarah assets are initially stated in the Financial Statement of the Bank at cost. Subsequently, they shall be stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged from the date of recognition of ijarah assets on a straight-line basis over the period of Ijarah. Impairment of Ijarah assets is determined on the same basis as that of operating fixed assets.

d) Salam Financing

Salam financings are reflected in the Financial Position of the Bank as receivables at the invoiced amount. Profit not due for payment is deferred and is recognized on a time proportion basis.

e) Interest Free Export Financing Facility

Interest Free Export Financing Facility is a short term financing given to the borrower for three months free of any charge or profit and not subject to discounting being a short term facility. Interest Free Export Facility Financing is stated in the statement of financial Position of the bank at the fair value of the consideration given (amounts of disbursement). and subsequently, they shall be stated at disbursement amount less ECL.

f) Mudaraba Investment

Mudaraba investment is based on the profit-sharing and loss-bearing Mudaraba contract where profits are shared between the parties based on the terms of the Mudaraba agreement. Initially Mudaraba contracts are stated in the statement of financial Position of the bank at fair value of the consideration given (amount of disbursement) and subsequently, they shall be stated at fair value of the consideration given, less ECL.

g) Musharaka

In Musharaka based financing, the Bank enters into a Musharaka based on partnership for financing an agreed share of fixed asset (e.g., house, land, plant or machinery) with its customers and enters into periodic rental payment agreement for the utilization of the Bank's Musharaka share by the customer. Initially Musharaka and Diminishing Musharaka Financing are stated in the statement of financial Position of the bank at fair value of the consideration given (amount of disbursement) and subsequently, they shall be stated in the financial Position of the Bank at disbursement amount less ECL.

Allowance for impairment is made against Interest Free financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.3). Interest Free financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from the following financing and investing receivables is recognized on the as follows policy:

(i) Murabaha

Murabaha income is recognized on a time apportioned basis over the period of the contract based on the outstanding principal amounts.

(ii) Istisna

Istisna revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istisna cost) are accounted for on a time proportion basis.

(iii) Ijara

Ijara income is recognized on a time apportioned basis over the lease term.

(V) Salam

Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

(vi) Mudaraba

Income or losses on Mudaraba financing are recognized on an accrual basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to the Bank's Statement of profit and loss on their declaration by the Mudarib.

(vi) Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

(vii) Forfeited income

According to the Bank's Fatwa and Sharia'a Supervisory committee, the bank is required to identify any income deemed to be derived from transactions not acceptable under Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory committee, and to set aside such amount in a separate account used to pay for charitable causes and activities.

(iv) Interest Free Banking customers' deposits and distributions to depositors

a) Interest Free Banking customers' deposits

Interest Free Banking customers' deposits such as Amana, Wadiaha and Mudaraba and other deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their carrying value.

b) Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders.

3.6 Cash and cash equivalents

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

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

3.7 Property, plant and Equipment

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

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

Property, plant and Equipment (continued)

Asset class	Useful life (years)
Buildings	50
Furniture and fittings	10-20
Equipment	5-10
Motor Vehicles	10
Computer and accessories	7-10

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

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

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

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

3.8 Intangible assets

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

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

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

- Swift software – 6 years
- Core Banking software – 6 years
- Mobile and agent banking software – 6 years

3.9 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straightline method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its cost of fund incurred for mobilizing deposits as there is no experience of borrowings from different external sources.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liabilities in the statement of financial position separately.

(ii). As a lessor

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

3.10 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, are classified as investment properties. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Bank and the cost can be reliably measured. This is usually when all risks are transferred.

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

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

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

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

3.11 Non current assets held for sale or disposal and discontinued operation

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

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

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

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

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

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3.12 Impairment of non-financial assets

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

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

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

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

3.13 Other assets

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

(a) ***Prepayment***

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

(b) ***Other receivables***

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Bank's other receivables are rent receivables and other receivables from debtors.

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3.14 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 4 and Note 15.14.1
- Quantitative disclosures of fair value measurement hierarchy Note 15.14.2
- Financial instruments (including those carried at amortised cost) Note 15.14.2

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

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

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

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

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

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

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

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

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

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

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Classification and subsequent measurement

On initial recognition, a financial asset is classified either as measured at either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

On initial recognition, an equity investment that is held for trading is classified at FVTPL. However, for an 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 done on an investment-by-investment basis.

There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Dividends from such investments continue to be recognised in profit or loss as other income when the company's right to receive payments is established.

3.15 Employee benefits

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

(a) ***Defined contribution plan***

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;
ii) provident fund contribution, funding under this scheme is 5% and 15% by employees and the Bank respectively;

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

(b) ***Defined benefit plan***

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.
The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past-service costs are recognised immediately in income.

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

(c) Termination benefits

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

3.16 Provisions

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

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

3.17 Contingent liabilities

Letters of credit, acceptances, guarantees, Approved Loan and Financing but not disbursed and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

3.18 Related parties

In the normal course of business, the Bank has entered into transactions with related parties.

3.19 Operating segment

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.20 Share capital

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

3.21 Earnings per share

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

3.22 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to income statement over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

3.23 Income taxation

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

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

4 Significant accounting judgements, estimates and assumptions

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

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

- Capital management Note 5.7
- Financial risk management and policies Note 5
- Sensitivity analyses disclosures Note 5.6.2

4.1 Judgements

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

Financial Instrument Recognition

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3.3). The Bank determines the business model at a level that reflects how Groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note 3.3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 3.3 for more details.

Establishing Groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics. Refer to note 3.3 for details of the characteristics considered in this judgment. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Bank of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 1 and note 3.3 for more details on ECL and note 5.14 for more details on fair value measurement.

4.2 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.

Fair value measurement of financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Bank's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Bank establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Bank 's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment losses on loans and advances

The following are key estimations that the directors have used in the process of applying the Bank's accounting

policies and that have the most significant effect on the amounts recognised in financial statements: Establishing the number and relative weightings of forward-looking scenarios for each type of product/market

and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 3.3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3 for more details, including analysis of the sensitivity of the reported ECL.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3.3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Bank uses valuation models to determine the fair value of its financial instruments. Refer to note 5.14 for more details on fair value measurement.

leases

The right of use is depreciated over the lease term considering the renewal option. The bank will renew the lease when it is reasonably certain that the lease location is still economically viable to conduct business. The bank will bear restoration costs upon relocation or end of lease where such is stipulated in the lease agreement.

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Defined benefit plans

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

Depreciation and carrying value of property, plant and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 3.8

Impairment of non-financial assets

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

Taxes

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

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

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Development cost

The Bank capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation 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 capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The development costs that were capitalised by the Bank relates to those arising from the development of computer software.

5 Financial risk management

5.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

5.2 Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board of Directors Risk Management and Compliance Committee (BDRMCC) has the overall responsibility for the development of risk strategy and implementing principles, framework, polices and limit. This subcommittee is also responsible for managing risk decisions and monitoring risk levels and report on monthly and quarterly basis to regulatory organ and the management.

The Risk Management and Compliance unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. This unit closely works with BDRMCC to ensure that procedures are complaint with overall framework.

The risk management function is a carried out in respect of financial risks (credit, market, and liquidity risks) and operational risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The Risk Management and Compliance Department is also responsible for ensuring that appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The Bank's risk management methodology polices and assessment procedures are designed to identify, analyze, mitigate and manage the risk faced by the Bank. This is accomplished through setting of appropriate risk limits and controls, whilst ensuring suitable monitoring of risk levels and compliance with the limits and procedures on an ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered, this is to ensure that "best practices" are implemented in the Bank.

Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialized bodies within the Bank, including committees and departments to comply with the requirement of the pertinent laws and industry best practices.

The Board of Directors has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management policies and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management, the Risk Management Committee, the Credit Committee, the Audit Committee and the Asset and Liability Committee ("ALCO").

The Risk Management and Compliance sub Committee is appointed by and reports directly to the Board of Directors.

5.2.1 Risk measurement and reporting systems

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

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

5.2.2 Risk mitigation

The bank uses board approved risk tolerance limit as a risk limit control. This risk tolerance limit composed of risk limit by economic sector, by credit product, by maturity, by geography and risk grade. There also limitation imposed by the regulatory organ such as single borrower limit, related party limit, off balance sheet exposure limit and connected counterparties limit to which all banks should comply.

As the credit risk mitigation, the bank established an appropriate risk environment, sound credit strategies, policies and procedures. In addition, there is active portfolio management, appropriate credit administration and monitoring and effective loan review function.

The other credit risk mitigation measures are obtaining sufficient collateral securities and guarantees for loans and advances as the second way out in case of default

5.3 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: Amortized cost and Fair Value through Other Comprehensive income and the financial liabilities are classified into other liabilities at amortised cost. Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

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

30 June 2022	Notes	FVTOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and cash equivalents	16	-	9,799,766	9,799,766
Loans and advances to customers	17	-	27,216,536	27,216,536
Interest Free Financing	18	-	4,038,858	4,038,858
Investment securities:				
- Financial assets at fair value through OCI	19(a)	219,983	-	219,983
-Financial assets at amortized cost	19(b)	-	5,851,603	5,851,603
Other assets	20	-	1,153,383	1,153,383
Total financial assets		**219,983**	**48,060,145**	**48,280,128**

30 June 2021	Notes	FVTOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and cash equivalents	16	-	7,061,051	7,061,051
Loans and advances to customers	17	-	21,959,098	21,959,098
Interest Free Financing	18	-	2,985,313	2,985,313
Investment securities:		-	-	-
- Financial assets at fair value through OCI	19(a)	165,695	-	165,695
-Financial assets at amortized cost	19(b)	-	6,322,332	6,322,332
Other assets	20	-	845,845	845,845
Total financial assets		**165,695**	**39,173,639**	**39,339,334**

5.4 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge his/her/its obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets including likelihood that borrower or counterparty fails to meet their obligations in accordance with agreed terms.

The bank manages and controls credit risk by setting limits on the amount of risk it is willing to take or accept for individuals counterparties and for economic sector, product and maturity concentration and by monitoring exposures in relation to such limits.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Bank, These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating and scoring systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the National Bank of Ethiopia (NBE), related to lending operations, have also been carefully considered and embedded into the Bank's credit policy.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrowers, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent reviews.

The Bank established control over authorization of the loans issued. The credit Committee reviews and approves all loans exceeding certain amount and or having exceptional terms.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, kin part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the Credit Monitoring and Loan Recovery, Credit management, Interest free banking and compliance and risk management department's. Based on a structured analysis, deteriorating creditworthiness is reported to, and reviewed by, the Management and Board of Directors. The Bank does not use formalized internal credit ratings for retail loans to monitor exposure to credit risk. Management monitors and follows up on past due balances on monthly basis.

The Bank's credit monitoring and Loan recovery office reviews the ageing analysis of outstanding loans and follows up on past due balances on monthly basis. Management therefore, considers it appropriate to provide ageing and other information about credit risk.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the loan contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

5.4.1 Management of credit risk

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

5.4.2 Credit related commitment risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

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

(a) Types of credit exposure

The banks maximum exposure to credit risk at 30 June 2022 and 30 June 2021 is represented by the net carrying amounts in the statement of financial position.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Cash and cash equivalents	9,799,766	7,061,051
Loans and advances to customers	27,216,536	21,959,098
Interest Free Financing	4,038,858	2,985,313
Investment securities:		
• Financial assets at fair value through OCI	219,983	165,695
• Financial assets at amortized cost	5,851,603	6,322,332
Other assets	1,153,383	845,845
Total Financial assets	**48,280,128**	**39,339,334**

Credit risk exposures relating to off balance sheets are as follows:

Loan commitments	2,614,705	1,678,417
Financing commitment on Interest Free Banking	1,077,900	1,077,900
Letter of credit net of margin held	528,232	327,961
Commitment on letter of credit net of urbun held	143,652	79,308
Guarantees	7,705,671	3,055,750
Total off balance sheet exposure	12,070,159	6,219,336
Total maximum exposure	**60,350,287**	**45,558,670**

(b) Assets obtained by taking possession of collateral

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
Buildings	40,541	35,038
Motor vehicles	-	-
	40,541	35,038

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

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(c) Loans and advances to customer at amortized cost ,

(i) Gross loans and advances to customers per sector is analyzed as follows;

	30 June 2022 Birr'000	30 June 2021 Birr'000
Agriculture	420,170	290,130
Industry	3,663,223	2,429,502
Domestic trade and services	7,544,971	7,101,806
Export	5,885,705	4,684,710
Import	2,937,423	1,839,061
Construction	2,177,260	1,752,911
Transport and communication	438,674	320,102
Hotel and tourism	1,587,639	1,415,178
Mining, power and water resources	12,975	40,018
Microfinance institution	104,112	52,255
Mortgage Loan- Staff	835,052	936,160
Mortgage Loan- Customer	1,132,215	848,443
Personal Loan -Staff loans	137,759	126,555
Emergency staff loans	296,488	237,893
Consumer Loans- Customer	301,452	134,808
Gross Loans and advances	**27,475,118**	**22,209,532**

(ii) Interest free financing per sector is analyzed as follows

	30 June 2022 Birr'000	30 June 2021 Birr'000
Murahabah Financing- Agriculture	454,792	452,912
Murahabah Financing- Construction	958,586	979,886
Murahabah Financing- Agriculture Merchandize	89,785	118,058
Murahabah Financing- Industry	518,032	463,259
Murahabah Financing- DTS	1,169,437	972,318
Murahabah Financing- Export	1,125,929	261,133
Interest Free Export Facility Financing	-	-
Murahabah Financing- Import	156,241	164,123
Murahabah financing		-
Murahabah Financing- Hotel and Tourism	25,272	38,348
Murahabah Financing- Transport and Communication	126,416	76,339
Muruhabah Financing- Consumer and Personal	20,574	15,973
Gross Interest Free Financing	**4,645,064**	**3,542,349**

(ii) Gross loans and receivables to customers per National Bank of Ethiopia impairement guidelines is analyzed as follows;

	30 June 2022 Birr'000	30 June 2021 Birr'000
Pass	26,025,018	20,106,784
Special mention	962,640	1,541,647
Substandard	125,961	263,014
Doubtful	205,911	114,938
Loss	218,462	187,021
Gross Loans and Advances	**27,537,992**	**22,213,403**

(iv) Interest Free Financing per National Bank of Ethiopia's impairement guidelines is analysed as follows;

	30 June 2022 Birr'000	30 June 2021 Birr'000
Pass	3,150,694	2,645,752
Special mention	1,408,758	818,587
Substandard	15,937	40,743
Doubtful	33,511	10,258
Loss	36,164	27,010
Gross Interest Free Financing	**4,645,065**	**3,542,351**

5.4.4 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVTOCI debt investments. 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. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3.3.

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(i) Loans and advances to customers at amortized cost

Birr'000	2022				2021
Credit risk exposure	Stage 1 12 Month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	TOTAL	Total
Stage 1 – Pass	26,025,0			26,025,018	20,106,784
Stage 2 – special		962,64		962,640	1,541,647
Stage 3 - Non			550,3	550,335	564,973
Total gross exposure	**26,025,01**	**962,640**	**550,33**	27,537,993	**22,213,404**
Loss allowance	(125,4	(16,05	(137,6	(279,149)	(272,194)
Net Carrying amount	**25,899,61**	**946,584**	**412,65**	27,258,843	**(272,194)**

(ii) Interest Free Financing measured at amortized cost

Birr'000	2022				2021
Financing risk exposure	Stage 1 12 Month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Total	Total
Stage 1 – Pass	3,150,694			3,150,694	2,645,75
Stage 2 – special		1,408,758		1,408,758	818,58
Stage 3 - Non			85,613	85,613	78,01
Total gross exposure	**3,150,694**	**1,408,758**	**85,613**	**4,645,065**	**3,542,35**
Loss allowance	(11,387)	(10,860)	(30,361)	(52,607)	(43,87
Net Carrying amount	**3,139,307**	**1,397,899**	**55,252**	**4,592,458**	**3,498,47**

(iii) Other financial assets as at 30 June 2022

Birr'000	**2022**		
Credit risk exposure	Gross exposure	Loss allowance	Net carrying amount
Cash and cash equivalents	9,799,766	(291)	9,799,475
Investment secuities (debt instrument	5,851,603	(316)	5,851,287
Other receivables and financial assets	1,153,383	(8,613)	1,144,770
Totals	**16,804,752**	**(9,220)**	**16,795,532**

(iv)Other financial assets as at 30 June 2021

Birr'000	**2021**		
Credit risk exposure	Gross exposure	Loss allowance	Net carrying amount
Cash and cash equivalents	7,061,051	(291)	7,060,760
Investment secuities (debt	6,322,332	(316)	6,322,016
Other receivables and financial	855,190	(9,345)	845,845
Totals	**14,238,573**	**(9,952)**	**14,228,621**

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(v) Credit quality analysis disclosures for on balance sheet facilities as at 30 June 2022

Title	12month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Pass	29,175,711	-	-	29,175,711
Special Mention	-	2,371,398	-	2,371,398
Non-Performing	-	-	635,948	635,948
Total Exposure	29,175,711	2,371,398	635,948	32,183,058
Loss Allowance	(136,795)	(26,916)	(168,046)	(331,756)
Carrying Amount	**29,038,917**	**2,344,482**	**467,902**	**31,851,301**

(vi) Credit quality analysis disclosures for off balance sheet facilities as at 30 June 2022

Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Pass	1,432,781,399	-	-	1,432,781,399
Special Mention	-	-	-	-
Non-Performing	-	-	107,311,829	107,311,829
Total Exposure	1,432,781,399	-	107,311,829	1,540,093,228
Loss Allowance	(277,221)	-	(42,081,856)	(42,359,077)
Carrying Amount	**1,432,504,178**	**-**	**65,229,973**	**1,497,734,152**

(vii) Credit quality analysis disclosures for on balance sheet facilities as at 30 June 2021

Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Pass	22,748,690	-	-	22,748,690
Special Mention	-	2,365,204	-	2,365,204
Non-Performing	-	-	646,790	646,790
Total Exposure	22,748,690	2,365,204	646,790	25,760,684
Loss Allowance	(75,599)	(18,814)	(221,654)	(316,067)
Carrying Amount	**22,673,091**	**2,346,390**	**425,137**	**25,444,617**

(viii) Credit quality analysis disclosures for off balance sheet facilities as at 30 June 2021

Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Pass	1,998,946,22	-	-	1,998,
Special Mention	-	3,355,703	-	3,355,703
Non-Performing	-	-	-	-
Total Exposure	**1,998,946,223**	**3,355,703**	-	**2,002,30**
Loss Allowance	(121,842	(3,432)	-	(125,274)
Carrying Amount	**1,998,824,381**	**3,352,271**	-	**2,002,17**

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Credit quality (continued)

Loans and advances to customers at amortized cost (on balance sheet exposures)	2022			
In Birr'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	75,599	18,814	221,6	316,067
Transfer to 12 months ECL	39,58	(743)	(340)	38,501
Transfer to Lifetime ECL not	(6,409)	1,287	(882)	(6,004)
Transfer to Lifetime ECL credit	(41,43	(6,762)	88,78	40,591
Net remeasurement of Loss	39,29	(983)	(129,	(91,291)
Net financial assets originated or	65,09	16,056	35,81	116,962
Financial assets derecognised	(34,93	(753)	(47,3	(83,069)
Balance as at 30 June 2022	**136,7**	**26,916**	**168,0**	**331,756**

Credit quality (continued)

Loans and advances to customers at amortized cost (on balance sheet exposures)	2021			
In Birr'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	83,9	15,656	169,0	268,621
Transfer to 12 months ECL	35,8	(2,03	(21,6	12,221
Transfer to Lifetime ECL not	(1,798)	1,959	(1,125)	(964)
Transfer to Lifetime ECL	(829)	(444)	29,430	28,157
Net remeasurement of Loss	(69,	(4,442)	(21,1	(94,682)
Net financial assets originated	66,0	12,554	119,2	197,814
Financial assets derecognised	(38,4	(4,436)	(52,1	(95,101)
Balance as at 30 June 2021	**75,5**	**18,81**	**221,6**	**316,067**

Credit Quality (continued)

Loan commitments and financial guarantee contracts (off balance sheet exposures)	2022			
In Birr'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	12	3,432		125,274
Transfer to 12 months ECL	35	-	-	359,066
Transfer to Lifetime ECL not	(51)	-	-	(51)
Transfer to Lifetime ECL credit	-	-	-	-
Net remeasurement of Loss	(2	(3,432)	-	(30,438)
Net financial assets originated or	52,792	-	-	52,792
Financial assets derecognised	(23	-	-	(231,596)
Balance as at 30 June 2022	**275**	**-**		**275,046**

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Credit Quality (continued)

financial guarantee contracts (off balance sheet exposures)	2021			
In Birr'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	180,244	-	-	180,244
Transfer to 12 months ECL	119,283	-	-	119,283
Transfer to Lifetime ECL not	(822)	-	-	(822)
Transfer to Lifetime ECL credit	-	-	-	-
Net remeasurement of Loss	(185,787)	1,932	-	(183,855)
Net financial assets originated or	69,062	1,500	-	70,562
Financial assets derecognised	(60,138)	-	-	(60,138)
Balance as at 30 June 2021	**121,842**	**3,432**		**125,274**

Credit Quality (continued)

In Birr'000	Cash and balances with banks	Investment securities (debt instruments)	Emergency staff loans	Other receivables and financial assets	Total
Balance as at 1 July	291	316	12	8,600	9,220
Net remeasurement of loss	117	-	-	5,229	5,346
New financial assets originated	-	-		-	-
Balance as at 30 June 2022	408	316	12	13,829	14,566

Credit Quality (continued)

Other financial assets	2021				
In Birr'000	Cash and balances	Investment securities	Emer gency	Other receivables and financial	Total
Balance as at 1 July	184	303	7.96	10071	10,566
Net remeasurement of loss allowance	107	13	4.27	(1,471)	(1,346)
New financial assets originated or purchased	-	-		-	-
Balance as at 30 June 2021	291	316	12	8,600	9,220

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Credit quality (continued)

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 statement of profit or loss and other comprehensive income.

Charge to statement of profit or loss and other comprehensive	2022			
In Birr'000	Loans and advances to customers at amortised cost	Investment securities (Debt instruments)	Other financial assets	Total charge/(credit)
Net remeasurement of	(91,291)	(30)	5,309	**(86,013)**
New financial assets	116,962	52.79	-	**117,015**
Financial assets	(83,069)	(232)	-	**(83,300)**
Amounts directly written	-	-	-	-
Recoveries of amounts	-	-	-	-
Total	**(57,398)**	**(209)**	**5,309**	**(52,298)**

Credit quality (continued)

Charge to statement of profit or loss and other comprehensive	2021			
In Birr'000	Loans and advances to customers at amortised	Investment securities (Debt instruments)	Other financial assets	Total charge/(credit)
Net remeasurement of	(94,6	(184)	(1,346)	**(96,212)**
New financial assets	197,8	71	-	**197,885**
Financial assets	(95,1	(60)	-	**(95,161)**
Amounts directly written	-	-	-	-
Recoveries of amounts	-	-	-	-
Total	**8,031**	**(173)**	**(1,34**	**6,512**

Credit quality (continued)

ECL Reconciliation Disclosures for on balance sheet facilities.	2022			
Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 July	75,599	18,814	221,654	316,067
Transfer to 12 months	39,584	(743)	(340)	38,501
Transfer to Lifetime	(6,409)	1,287	(882)	(6,004)
Transfer to Lifetime	(41,436)	(6,762)	88,788	40,591
Net remeasurement of	39,296	(983)	(129,604)	(91,291)
Net financial assets	65,093	16,056	35,814	116,962
Financial assets	(34,933)	(753)	(47,383)	(83,069)
Balance as at 30 June	**136,7**	**26,916**	**168,04**	**331,756**

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Credit quality (continued)

ECL Reconciliation Disclosures for on balance sheet facilities.	2021			
Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 July	83,935,681	15,656,005	169,029,618	268,621,303
Transfer to 12 months ECL	35,868,614	(2,033,248)	(21,613,919)	12,221,446
Transfer to Lifetime ECL not credit impaired	(1,797,990)	1,959,057	(1,125,188)	(964,122)
Transfer to Lifetime ECL credit impaired	(829,414)	(443,569)	29,429,876	28,156,894
Net remeasurement of Loss allowance	(69,110,856)	(4,442,423)	(21,128,307)	(94,681,586)
Net financial assets originated or purchased	66,029,359	12,553,781	119,230,854	197,813,994
Financial assets derecognised	(38,496,389)	(4,435,874)	(52,168,984)	(95,101,247)
Balance as at 30 June 2021	75,599,005	18,813,728	**221,653,949**	**316,066,682**

Credit quality (continued)

ECL Reconciliation Disclosures for off balance sheet facilities.	2022			
Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 July	121,842	3,432		125,274
Transfer to 12 months ECL	359,066	-	-	359,066
Transfer to Lifetime ECL not	(51)	-	-	(51)
Transfer to Lifetime ECL	-	-	-	-
Net remeasurement of Loss	(27,006)	(3,432)	-	(30,438)
Net financial assets	52,792	-	-	52,792
Financial assets derecognised	(231,596)	-	-	(231,596)
Balance as at 30 June 2022	**275,046**	-		**275,046**

Credit quality (continued)

ECL Reconciliation Disclosures for off balance sheet facilities.	2021			
Title	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 July	180,244	-	-	180,244
Transfer to 12 months ECL	119,283	-	-	119,283
Transfer to Lifetime ECL not credit impaired	(822)	-	-	(822)
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	(185,787)	1,932	-	(183,855)
Net financial assets originated or purchased	69,062	1,500	-	70,562
Financial assets derecognised	(60,138)	-	-	(60,138)
Balance as at 30 June 2021	**121,842**	**3,432**	-	**125,274**

x) Loans and advances to

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

xi) Investment securities designated as at FVTPL

At 30 June 2021, the Bank had no exposure to credit risk of the investment securities designated as at FVTPL

5.4.4.1 Amounts arising from ECL

i) inputs, assumptions and techniques used for estimating impairement

See accounting policy in note 3.3

ii) Significant increase in credit risk

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

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).
- the Bank uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due,

iii) Credit risk grades

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

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

a. Term loan exposures

• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance

•Data from credit reference agencies, press articles, changes in external credit ratings

•Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

•Internally collected data on customer behaviour – e.g. utilisation of credit card facilities

•Affordability metrics

b. Overdraft exposures

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

iv) Generating the term structure of PD

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

v) Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.
The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

vi) Definition of default

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

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

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

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

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

vii) Incorporation of forward-looking information

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

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

In line with the expected, as well as experienced, Expected Credit Loss forward - looking volatility arising from the economic impact of the Covid 19 global crisis, the Bank has conducted, and overlaid, additional scenario analysis on the macroeconomic overlay model. This includes application of higher probability weights on the downside scenario, lower probability weights on the upside scenario, as well as stress tests on macroeconomic projections. The Bank continues to monitor the economic impact of Covid 19 on it's credit risk profile as well as forward - looking Expected Credit Loss estimates and shall update the same on it's IFRS 9 forward - looking estimates as and when significant changes inthe overall macroeconomic environment are experienced.

External information considered includes economic data and forecasts published by Business Monitor International, an external and independent macroeconmic date body, this is in addition to industry-level, semiannual NPL trends across statically 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 foreach portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for each of the Bank's economic sectors is summarized below:

Sector/Product	Macroeconomic factors				
Agriculture and personal loans and staff loans (cluster 1)	Goods exports, USD	Services imports, USD	-	-	-
Domestic Trade & services and transport (Cluster2)			-	-	-
Building & construction manufacturing (cluster3)	Goods imports, USD	Real GDP, LCU (2010 prices)	Real GDP, USD (2010 prices)	Real GDP, per capita, USD (2010 prices)	-
Export and import (cluster4)	Consumer price index inflation, 2010=100, eop	Goods imports, USD	Current account balance, USD	Import cover months	Real GDP, USD (2010 prices)

The economic scenarios used as at 30 June 2021 included the following key indicators for Ethiopia for the years 2021 to 2022

Macro-economic factor	2022	2023	2024
Goods exports, USDbn	4,022	4,137	4,393
Services imports, USDbn	5857.5	6267	6696.5
Goods' imports, USDbn	4022	4137	4393
Real GDP, LCU (2010 prices)	944,211,000,000	998,681,500,000	1,062,988,500,000
Real GDP,USD (2010 prices)	65,526,523,984	69,306,677,493	73,769,466,189
Real GDP per capita, USD (2010 prices)	549	567	589
Consumer price index inflation, 2010=100, eop	581.0731393	689.7085522	758.6794075
Goods imports, USDbn	4022	4137	4393
Current account balance, USDbn	-448.2	-4804	-4747.5
Import cover months	1.705	1.72	1.89
Real GDP per capita, USD (2010 prices)	548.96	566.61	588.78

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

viii) Modified financial assets

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

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

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

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

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

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

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

ix) Measurement of ECL

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

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

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

lifetime PD by LGD and EAD.

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

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

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

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

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

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are 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.

5.4.5 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 2022 and 30 June 2021 and are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. However, cash and cash equivalents that held in foreign banks can be assessed by reference to credit rating agency designation as shown in the table below;

	30 June 2022 Birr'000	30 June 2021 Birr'000
AAA+	-	-
AA	-	-
B	-	-
BBB	2,691,223	1,445,221
Not rated	7,108,543	5,615,830
Total	**9,799,766**	**7,061,051**

5.4.6 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 forward looking 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:

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

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

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

During the period ended 30 June 2022, the Bank transferred an amount of Birr 211.4 million to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IFRS -9 as at year end.

In line with the same directive of the NBE, the Bank compared the provision based on the Directive with impairment under IFRS-9 for comparative periods and hence the bank transfered an amount of Birr 124.88 million from retained earnings to the regulatory risk reserve as the impairment balance under IFRS was lower for the year 30 June 2021.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Total impairment based on IFRS	331,756	316,067
Total impairment based on NBE Directives	543,157	440,945
Variation	**(211,400)**	**(124,879)**

In line with the directive of the NBE, the Bank compared the provision for other assets based on the Directive with impairment for other assets under IFRS-9 for same period and hence the bank transferred an amount of Birr .282 million from retained earnings to the regulatory risk reserve as the impairment balance under IFRS was lower for the year ended 30 June 2022.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Total Impairment for other Assets Based on IFRS	61,111	9,345
Total Impairment for other Assets Based on NBE directives	63,927	44,201
Excess amount for other assets provision	(2,816)	(34,856)
Total amount transferred to regulatory risk reserve	**(214,216)**	**(159,735)**

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
Write backed Suspended interest	(20,167)	6,802
Realized interest from last year Non impaired loans and advances		-
Net amount transferred to regulatory risk reserve	**(20,167)**	**6,802**

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5.4.7 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2022 and 30 June 2021. The Bank concentrates all its financial assets in Ethiopia.

30 June 2022	Domestic and Trade Services Birr'000	Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and cash equivalents				9,799,766
Loans and receivables	7,544,971	5,885,705	2,177,260	11,867,182
Interest Free Financing	1,169,437	-	958,586	2,517,041
Investment securities:				
- Financial assets at fair value through OCI	-	-	-	219,983
-Financial assets at amortized cost	-	-	-	5,851,603
Other financial assets	-	-	-	1,153,383
Total financial assets	**8,714,408**	**5,885,705**	**3,135,846**	**31,408,958**

30 June 2021	Domestic and Trade Services Birr'000	Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and cash				7,061,051
equivalents Loans and	7,101,806	4,684,710	1,752,911	8,670,105
receivables Interest Free	972,318	-	979,886	1,590,145
Financing				
Investment securities:	-	-	-	165,695
- Financial assets at fair value through OCI	-	-	-	6,322,322
-Financial assets	-	-	-	845,845
Total financial assets	**8,074,124**	**4,684,710**	**2,732,797**	**24,655,163**

5.4.8 Nature of security in respect of loans and advances to customers

30 June 2022	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	614,223	-	26,138	125,666	76,365
Domestic trade	13,738,021	52,200	61,826	434,025	129,601
Export	3,344,285	-	85,275	194,008	934,757
Financial Institution	14,591	34,620	-	-	5,000
Hotel and tourism	2,969,815	-	-	86,498	5,045
Housing and construction	4,451,829	8,216	148,504	151,274	3,252
Import	3,102,959	20,000	125,213	77,984	138,091
Industry	3,598,975	450,000	162,459	62,331	150,309
Mines, Power and Water Resource	5,360	-	-	22,000	-
Mortgage Consumer Loan	1,595,343	-	-	9,341	2,366
Mortgage Staff Loan	1,462,812	341	-	18,038	3,442
Personal Consumer Loan	348,781	-	-	209,238	1,911
Personal Staff Loan	445,756	59	-	16,556	770
Transport and communication	700,730	-	12,575	297,509	-
Total	**36,393,480**	**565,437**	**621,990**	**1,704,468**	**1,450,909**

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30 June 2021	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	550,131	-	6,078	84,737	19,008
Domestic trade	12,954,446	-	93,407	422,285	80,175
Export	3,550,848	12,431	53,050	166,738	300,555
Financial Institution	23,111	11,920	-	-	-
Hotel and tourism	2,935,896	-	10,836	61,149	2,034
Housing and construction	3,671,745	-	168,294	138,872	
Import	2,477,629	67,431	5,422	145,699	68,015
Industry	2,798,077	40,020	55,946	56,285	204,455
Mines, Power and Water Resource	-	-	-	45,575	-
Mortgage Consumer Loan	1,245,941	-	-	4,755	-
Mortgage Staff Loan	1,458,896	998	-	14,091	-
Personal Consumer Loan	301,336	391	-	66,027	823
Personal Staff Loan	352,912	770	-	15,624	-
Transport and communication	651,844	-	7,172	200,053	208
Total	**32,972,811**	**133,961**	**400,206**	**1,421,888**	**675,272**

5.4.9 Nature of security in respect of Interest Free Financing

30 June 2022	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	472,820	4,581	248,034	78,096	-
Construction	3,259,067	-	52,178	42,021	2,752
Domestic Trade Services	1,830,167	-	75,578	178,767	1,101
Export	647,214	-	167,644	128,802	454,493
Hotel and Tourism	91,179	-	-	-	-
Import	261,068	-	27,147	7,859	1,101
Industry	543,176	-	232,669	181,356	1,101
Mortagage	-	-	-	-	-
Transport and Communication	99,680	1,563	8,655	88,038	-
Total	**7,204,371**	**6,144**	**811,905**	**704,939**	**460,547**

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30 June 2021	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	415,139	-	245,434	44,925	
Construction	2,120,155	-	41,049	35,634	35,620
Domestic Trade Services	1,891,448	-	194,771	149,922	9,969
Export	184,114	-	98,304	55,046	-
Hotel and Tourism	91,179				
Import	276,089	-	118,992	67,306	13,404
Industry	489,576	-	140,798	146,040	23,513
Mortgage	32,253				
Transport and Communication	80,597	1,563	11,655	59,640	
Total	**5,580,550**	**1,563**	**851,003**	**558,513**	**82,506**

5.4.10 Collateral held and their financial effect

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

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

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

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

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

5.4.11 Write-off policy

The Bank writes off Loans and Advance balance, and any related allowances for impairment losses, when Bank determines that the Loans and advances or security is uncollectible and after approval is obtained. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans and advances, write- off decisions generally are based on a product-specific past due status. There was no amount write off during the year.

5.5 Liquidity risk

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

Liquidity risk management in the Bank is solely determined by Assets and Liabilities 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.

5.5.1 Management of liquidity risk

The day-to-day liquidity management is performed by the Financial Managment Diroctorate, with in a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Cheif Risk Management and Compliance. The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations' which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the National Bank of Ethiopia (NBE). This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 24.30% as at 30 June 2022 whereas the minimum percentage required by the NBE is 15%.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due, maintaining access to a range of funding sources, maintaining funding contingency plans, and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the NBE.

The Financial Management Directorate receives information about the liquidity profile of the financial assets and liabilities. The Accounting and Treasury Department then provides for an adequate portfolio of short-term liquid assets, made up of short-term deposits with banks to ensure that sufficient liquidity is maintained within the Bank as a whole.

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5.5.2 Maturity analysis of financial liabilities

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

30 June 2022	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
Deposits from customers	27,787,633	5,557,527	1,852,509	1,111,505	741,004
Interest Free customers' deposit	4,853,354	970,671	323,557	194,134	129,423
Debt securities issued	-	-	-	-	-
Borrowings	-	-	-	-	-
Other liabilities	534,379	-	-	-	-
Lease liabilities	2,848	6,549	11,070	54,186	270,751
Total financial liabilities	**33,178,214**	**6,534,747**	**2,187,136**	**1,359,825**	**1,141,177**

30 June 2021	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
Deposits from customers	22,100,692	4,420,138	1,473,379	884,028	589,352
Interest Free customers' deposit	3,658,442	731,688	243,896	146,338	97,558
Debt securities issued	-	-	-	-	-
Borrowings	47,920.00	25,460.00	1,500.00	52,789.40	127,669.40
Other liabilities	1,030,940	-	-	-	-
Other liabilities	749	4,715.32	6,441.73	21,801.60	247,526
Total financial liabilities	**26,838,743**	**5,182,002**	**1,725,217**	**1,104,956**	**1,062,106**

5.6 Market risk

Market risk is defined as the risk of loss risk 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.

5.6.1 Management of market risk

The bank manages and control market risk exposures within acceptable limits, while optimizing the return on risk. The Cheif Risk Management and Compliance is in charge of managing market risk, regularly, to identify any adverse movement in interest rate and foreign currency exchange rate.

(i) Interest rate risk

Interest rate risk is the potential loss on the bank arising from mismatch between positions, which are subject to interest rate adjustment within a specified period, or in any other interest rate relationship. The Bank's lending, funding and investment activities give rise to interest rate risk. The bank conduct thorough and stress testing on unexpected changes in the general level of interest rate, market interest rate, key assumptions, and parameters, and monitor interest rate risk factor on ongoing basis.

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

30 June 2022	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	3,418,528	-	6,381,238	9,799,766
Loans and advances to customers	27,216,536	-	-	27,216,536
Interest Free Financing	-	-	4,038,858	4,038,858
Investment securities	5,851,603	-	-	5,851,603
Total	**36,486,667**	**-**	**10,420,096**	**46,906,762**
Liabilities				
Deposits from customers	24,917,230	-	12,132,947	37,050,177
Interest Free customers' deposits	-	-	6,471,139	6,471,139
Debt securities issued	-	-	-	-
Borrowings	-	-	-	-
Lease liabilities	344,740	-	-	344,740
Other liabilities	-	-	534,379	534,379
Total	**25,261,970**	**-**	**19,138,465**	**44,400,435**

5.6.2 Management of market risk (continued)

30 June 2021	Fixed Birr'000		Non-interest Birr'000	Total Birr'000
Assets				
Loans and advances to customers	21,959,098	-	-	21,959,098
Interest Free Financing-	-	-		
Investment securities	6,322,332			
Total	**30,450,581**		**7,877,213**	**38,327,79**
Liabilities				
Deposits from customers	29,467,589			29,467,589
Interest Free customers' deposits			4,877,923	4,877,923
Borrowings	127,669.00			127,669.00
Lease liabilities	281,894			281,894
Other liabilities			903,271	903,271
Total	**29,877,152**		**5,781,194**	**35,658,34**

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non–trading financial assets and financial liabilities held at 30 June 2022 and 30 June 2021. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

30 June 2022	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
	10%	6	6
	-10%	(6)	(6)

30 June 2021	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
	10%	7	7
	-10%	(7)	(7)

(ii) Foreign exchange risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at 30 June 2022 and 20211 was Birr 2,757.00 million and Birr1445.00 million respectively.

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Foreign currency denominated balances

30.Jun.2022	USD Birr'000	EURO Birr'000	GBP Birr'000	Total Birr'000
Financial assets				
Cash and bank balances	2,585,286	171,616	438	2,757,340
Financial liabilities				
Deposit from customers	1,403,437	14,169	803	1,418,408
Net foreign currency denominated balances	**1,181,850**	**157,447**	**(365)**	**1,338,932**

30.Jun.2021	USD Birr'000	EURO Birr'000	GBP Birr'000	Total Birr'000
Financial assets				
Cash and bank balances	1,419,959	22,391	2,871	1,445,221
Financial liabilities				
Deposit from customers	831,565	8,652	770	840,986
Net foreign currency denominated balances	**588,394**	**13,739**	**2,101**	**604,235**

Sensitivity analysis for foreign exchange risk

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

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

	30 June 2022 Birr'000	30 June2021 Birr'000
10% appreciation in exchange rate for USD	82,729	41,188
10% depreciation in exchange rate for USD	(82,729)	(41,188)
10% appreciation in exchange rate for EURO	11,021	962
10% depreciation in exchange rate for EURO	(11,021)	(962)
		147
10% appreciation in exchange rate for GBP	(26)	
10% depreciation in exchange rate for GBP	26	(147)

5.7 Capital management

The Bank's objectives when managing capital are (i) To ensure that the bank has adequate capital and effective plans to prudently manage its capital and meets regulatory requirements; (ii) To ensure that the Bank's risk appetite is based on a capital adequacy ratio sufficient for the Bank to continue its business activities;(iii) To ensure that Bank's capital is adequate to absorb unforeseen losses and thus provide a source of protection to depositors and other creditors in the event of difficulties; (v) Establishing and implementing sound and prudent policies governing the quantity and quality of capital required to support the bank (vi) Developing and implementing appropriate and effective policies to monitor, on an ongoing basis, bank's capital requirements and capital position to ensure that the institution meets its capital requirements and will continue to meet its future capital requirements.

5.7.1 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.

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 2022 Birr'000	30 June 2021 Birr'000
Capitl		
Capital contribution	4,373,064	3,472,037
Retained earnings	869,024	735,467
Legal reserves	1,375,194	1,074,925
Regulatory Risk Reserve	195,869	165,620
	6,813,151	5,448,049
Risk weighted assets		
Risk weighted balance for on-balance sheet items	38,024,775	29,527,352
Credit equivalents for off-balance Sheet Items		5,833,515
	2,987,487	43,858,290
	32,514,839	
Risk-weighted Capital Adequacy Ratio (CAR)	**16%**	**17%**
TIER 1 CAR Minimum required capital	8%	8%
Excess	7.53%	8.76%

5.8 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the banks processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the bank's operations and are faced by all business entities.

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions

b) Requirements for the reconciliation and monitoring of transactions,

c) Compliance with regulatory and other legal requirements ,

d) Documentation of controls and procedures ,

e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,

f) Requirements for the reporting of operational losses and proposed remedial action,

g) Development of contingency plans,

h) Training and professional development,

i) Ethical and business standards ,

j) Risk mitigation, including insurance where this is effective.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the bank.

5.9 Strategic risk

Strategic risk arises from choosing a wrong strategy, unsuccessful implementation of strategy, changes in the competitive environment or responding too slowly to changes. Strategic risks are minimized by means of regular updates of strategic and annual plans. Analyses of the condition and development of the OIB, as well as other analyses and estimates concerning the development of the sector, competition and financial operating environment are utilized in the planning.

Sharia Non-compliance

5.10 Risk

This potential loss is arising from the failure to comply with the Sharia rules and principles. The bank manages this risk by strictly adhering to Sharia rules and principles, own policy and procedures and NBE directives.

5.11 Rate of return

A variable rate of return on investment account holders introduces uncertainty regarding the real value of deposit. Asset preservation in terms of minimizing the risk of loss due to a lower rate of return may be important factors in depositors' withdrawal decisions. From the bank perspective, this introduces a "withdrawal risk" that is linked to the lower rate of return relative to other financial institution.

The bank will manage the rate of return risk by putting in place appropriate systems for identifying and measuring the factors which give raise to rate of return risk.

5.12 Displaced Commercial Risk

It is the risk that the bank may confront commercial pressure to pay returns that exceeds the rate that has been earned on its assets financed by investment account holders. The bank forgoes part or its entire share of profit in order to retain its fund providers and dissuade them from withdrawing their funds

5.13 Equity investment risk

This is the risk arising from entering into a partnership for the purpose of undertaking or participating in a particular financing or general business activity as described in the contract, and in which the provider of finance shares in the business risk. This risk type is relevant under Mudharabah and Musharakah contract. While investment made via Mudharabah and Musharakah instruments may contribute substantially to IFBWS earnings, they entail significant counterparty, market, liquidity, credit and other risks, potentially raising giving rise to volatility in earning and capital.

As the risk mitigation instrument IFBW may require the Mudarib or Musharakah partner to provide collateral or guarantee.

5.14 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.

15.14.1 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.

b. 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. The amounts are based on the values recognized in the statement of financial position.

30.Jun.22 Financial assets	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Equity investments	-	219,983	-	219,983
Total	-	219,983	-	219,983

Valuation technique using significant unobservable inputs – Level 3

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

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

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

30 June 2022	Carrying Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	9,799,766	9,799,766	-	-	9,799,766
Loans and advances to customer	27,216,536	-	-	27,216,536	27,216,536
Interest Free Financing	4,038,858	-	-	4,038,858	4,038,858
Investment securities	6,071,586	-	-	6,071,586	6,071,586
Total	**47,126,745**	**9,799,766**	**-**	**37,326,979**	**47,126,745**
Financial liabilities					
Deposits from customers	7	-	-	37,050,177	37,050,177
Interest Free customers' deposit	9	-	-	6,471,139	6,471,13
Lease Liabilities	4	-	-	345,404	345,404
Other liabilities	9	-	-	534,379	534,379
Total	44,401,099	-	-	44,401,099	44,401,099

30 June 2021	Carrying Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	7,061,051	7,061,051	-	-	7,061,051
Loans and advances to customer	21,959,098	-	-	21,959,098	21,959,098
Interest Free Financing	2,985,313	-	-	2,985,313	2,985,313
Investment securities	6,488,027	-	-	6,488,027	6,488,027
Total	38,493,489	7,061,051	-	31,432,438	38,493,489

5.14.3 Financial instruments not measured at fair value - Fair value hierarchy Financial liabilities

	Carrying	Level 1	Level 2	Level 3	Total
Deposits from customers	29,467,589		-	29,467,589	29,467,589
Interest Free customers' deposit	4,877,923		-	4,877,923	4,877,923
Other liabilities	1,030,940	-	-	1,030,940	1,030,940
Total	35,376,452	-	-	35,376,452	35,376,452

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15.14.4 Valuation technique using significant unobservable inputs – Level 3

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

15.14.5 Transfers between the fair value hierarchy categories

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

5.15 Offsetting financial assets and financial liabilities

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

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		30 June 2022 Birr'000	30 June 2021 Birr'000
6	**Interest income from Loans and advances**		
	Interest income earned on deposits	147,998	84,680
	Interest on Investment securities	342,158	248,532
	Interest on Agriculture loans	56,629	43,437
	Interest on Industry loans	519,814	389,871
	Interest on Domestic loans	1,096,046	1,045,909
	Interest on Export loans	187,048	483,423
	Interest on Import loans	389,596	283,170
	Interest on Import Bills	-	-
	Interest on Construction loans	335,152	274,930
	Interest on Mortgage loans	177,415	146,741
	Interest on Personal loans	29,004	16,329
	Interest on Transport loans	545,928	83,059
	Interest on Hotel and Tourism loans	209,772	210,350
	Interest on Microfinance loans	13,404	5,706
	Interest on Mines, Power and Water loans	5,511	1,257
	Interest Earned -on Non- Performing Loan	-20,167	6,802
	Interest On Staff Loans	74,058	138,381
	Total	**4,109,366**	**3,462,577**

		30 June 2022 Birr'000	30 June 2021 Birr'000
7	**Income from Interest free financing and investment products**		
	Income From Murabaha Financing	9,944	9,165
	Income from Interest Free Banking-Agriculture	47,338	42,005
	Income from Interest Free Banking-Industry	50,212	70,733
	Income from Interest Free Banking-DTS	105,908	96,783
	Income from Interest Free Banking-Import	20,501	22,283
	Income from Interest Free Banking-Construction	110,065	76,418
	Income from Interest Free Banking-Transport and communication	10,824	4,566
	Income from Interest Free Banking-Hotel and Tourism	3,551	4,098
	Income from Interest Free Banking-Export	-	-
	Income from Interest Free Banking-Mines ,Power & Water	-	-
	Total	**358,343**	**326,051**

Included within various line items under interest income for the year ended 30 June 2022 is a total of Birr (2017) million (30 June 2021: Birr 6.80 million) relating to impaired financial assets.

		30 June 2022 Birr'000	30 June 2021 Birr'000
8	**Interest expense**		
	Interest on fixed time deposits	570,399	433,458
	Interest on saving deposits	994,356	905,574
	Interest on demand deposits	12,893	4,759
	Interest on NBE Borrowing	75,905	53,584
	Interest due to local banks	-	-
	Total	**1,653,553**	**1,397,375**
	Distribution to depositors- Interest Free Banking Products		
	Profit share on Mudharaba deposits	31,370	788

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		30 June 2022 Birr'000	30 June 2021 Birr'000
9	**Net fees and commission income**		
9(a)	**Fee and commission income**		
	Miscellaneous income	121,981	71,965
	Commission on letters of credit	107,528	68,973
	Inspection and estimation income	19,911	17,385
	Service charge	3,375	3,556
	Commitment fee	17,753	11,766
	Opening commission	361,603	254,696
	Extension commission	-	-
	Confirmation commission	2,454	411
	Service charge- foreign	378,648	185,279
	Swift charges	6,516	5,527
	Interest free banking commissions	-	-
		1,019,769	**619,558**
9(b)	**Fee and commission expense**		
		-	-
	Net fees and commission income	**1,019,769**	**619,558**

		30 June 2022 Birr'000	30 June 2021 Birr'000
10	**Other operating income**		
	Dividend income	11,428	6,074
	Gain on disposal of assets	4,094	710
	Sundry income	17,391	11,243
	Rental income	7,402	11,136
	Gain on foreign exchange	262,250	83,558
	Total	**302,565**	**112,721**

		30 June 2022 Birr'000	30 June 2021 Birr'000
11	**Loan impairment charge**		
	Loans and receivables - charge for the year (Conventional Banking)	6,955	40,602
	Interest Free Financing - charge for the year (Interest Free Banking)	8,734	6,843
	Loans and receivables - reversal of provision (note 15a)	-	-
	Total	**15,689**	**47,445**

		30 June 2022 Birr'000	30 June 2021 Birr'000
12	**Impairment losses on other assets**		
	Other assets - charge for the year (note 17)	51,766	-1,401
	Interest free financing-charge for the year	-	-
	Other assets - reversal of impairment losses (note 17)	-	-
	Total	**51,766**	**-1,401**

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		30 June 2022 Birr'000	30 June 2021 Birr'000
13	**Personnel expenses**		
	Salaries and wages	991,547	789,777
	Pension costs – defined contribution plan	132,550	103,997
	Bonus	148,610	96,242
	Other staff expenses	164,180	103,503
	Prepaid staff benefit expense	68,620	131,124
	Leave expense	37,326	17,903
	Total	**1,542,833**	**1,242,546**

		30 June 2022 Birr'000	30 June 2021 Birr'000
14	**Other operating expenses 14**		
(a)	**Lease Expense**		
	Interest expense on lease liability	32,536	28,695
	Total	**32,536**	**28,695**

14 (b) Other Operating Expense

Insurance	17,985	11,857
Repair and maintenance	31,306	27,873
Sundry expenses	175,543	93,615
Professional expenses	2,316	4,891
Occupancy cost	578	-
Promotional and related expenses	85,613	50,984
Office expenses	68,456	67,193
Employee travel expenses	34,055	27,234
Wages	127,637	74,792
Water and electricity	6,410	7,232
Bank charge	818	1,256
Bonus expense	-	-
Severence pay	19,869	14,048
Legal	18,365	2,430
Impairment on non-current assets	- 7,492	- 6,513
Transport		
Loss on disposal of assets	2,040	140
Amortization of lease	112	112
Total	**598,595**	**390,170**

		30 June 2022 Birr'000	30 June 2021 Birr'000
15	**Company income and deferred tax**		
15 (a)	**Current income tax**		
	Company income tax	316,463	249,672
	Prior year (over)/ under provision	-	-
	Deferred income tax/(credit) to profit or loss	1,033	7,306
	Total charge to profit or loss	317,497	256,978
	Tax (credit) on other comprehensive income	3,375	4,717
	Total tax in statement of comprehensive income	320,872	261,695

15 (b) Reconciliation of effective tax to statutory tax

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
Profit before tax	1,518,572	1,128,965
		-
Add : Disallowed expenses		-
Entertainment	1,982	529
IFRS 16 Deperciation and Interest on leased asset 2022	248,886	208,522
IFRS 16 Deperciation and Interest on leased aset 2021 Net	-	4,475
Other disallowed expense	18,411	810
Sponsorship	2,562	4,537
General assembly	4,305	3,443
Management meeting and promotion	1,466	70
Severance expense	12,645	10,318
Prize linked promotion	2,253	1,581
Legal case	18,074	2,305
Advertisment, inaguration & rebranding	6,519	-
Third party payment for motor vehicle	64	52
Gifts	71	456
Training	9,268	790
Provision for other asset	51,766	(1,401)
Provision for loans and advances as per IFRs	15,689	47,445
Depreciation for accounting purpose	109,281	106,496
Loss on disposal of PPE for accounting purpose	-	-
Green legacy-tree planting	592	669
Total disallowable expenses	503,834	391,096
Less :		
Depreciation for tax purpose	142,742	123,137
Provision for loans and advances for tax as per NBE (80%)	81,769	26,348
Dividend income taxed at source	11,428	6,074
Interest income taxed at source- Treasury Bills, NBE Bills DBE Bonds	371,223	248,532
Interest income taxed at source-Local Deposit	118,932	84,680
Office Rent As per GAAP	241,435	199,051
Loss on disposal of PPE for Tax purpose	-	-
Write back suspended Interest Taxed previous year	-	-
	967,528	687,821
Taxable profit	1,054,878	832,240
Current tax at 30%	**316,463.30**	**249,672**

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15 (c) Current income tax liability	30 June 2022 Birr'000	30 June 2021 Birr'000
Balance at the beginning of the year	249,460	197,069
Current year provision	316,463	249,672
Prior year (over)/ under provision	-	
WHT Notes utilised	383	212
Payment during the year	249,460	197,069
Balance at the end of the year	**316,081**	**249,460**

15 (d) Deferred income tax

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months		
To be recovered within 12 months	(33,626)	(29,217)
Total	**(33,626)**	**(29,217)**

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):	As at 30 June 2021 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2022 Birr'000
Property, plant and equipment	(30,978)	(4,827)	-	(35,805)
Equity securities	(19,948)	-	(6,097)	(26,044)
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post employment benefit obligation	21,709	3,793	2,721	28,223
Total deferred tax assets/(liabilities)	(29,217)	(1,033)	(3,375)	(33,626)

Deferred income tax assets/(liabilities):	As at 30 June 2020 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2021 Birr'000
Property, plant and equipment	(20,578)	(10,401)	-	(30,978)
Equity securities	(11,491)	-	(8,457)	(19,948)
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post employment benefit obligation	14,873	3,095	3,740	21,709
Total deferred tax assets/(liabilities)	(17,196)	(7,306)	(4,717)	(29,217)

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		30 June 2022 Birr'000	30 June 2021 Birr'000
16	**Cash and cash equivalents**		
	Cash in hand	1,635,091	1,242,129
	Balance held with National Bank of Ethiopia	4,746,147	3,649,771
	Deposits with local banks	727,305	723,930
	Deposits with foreign banks	2,691,223	1,445,221
	Total	**9,799,766**	**7,061,051**

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	6,738,766	5,341,051
Non-Current	3,061,000	1,720,000
Total	**9,799,766**	**7,061,051**

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

		30 June 2022 Birr'000	30 June 2021 Birr'000
17	**Loans and advances to customers**		
	Agriculture	420,170	290,130
	Industry	3,663,223	2,429,502
	Domestic trade and services	7,544,971	7,101,806
	Export	5,885,705	4,684,710
	Import	2,937,423	1,839,061
	Construction	2,177,260	1,752,911
	Transport and communication	438,674	320,102
	Hotel and tourism	1,587,639	1,415,178
	Mining, power and water resources	12,975	40,018
	Microfinance institution	104,112	52,255
	Mortgage loan staff	835,052	936,160
	Mortgage loan customer	1,132,215	848,443
	Personal loan staff	137,759	126,555
	Emergency staff loans	296,488	237,893
	Consumer loans	301,452	134,808
	Consumer loans staff	20,567	21,760
	Gross amount	**27,495,685**	**22,231,292**
	- Stage 1 12 month ECL	(125,408)	(69,982)
	- Stage 2 Life time ECL	(16,056)	(11,811)
	- Stage 3 Life time ECL	(137,685)	(190,401)
	Total Loss allowance	**(279,149)**	**(272,194)**
	Total carrying amount	**27,216,536**	**21,959,098**

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Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	14,817,743	11,955,389
Non-Current	12,398,793	10,003,709
Total	**27,216,536**	**21,959,098**

17 (a) Impairment allowance on loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and receivables as at 30 June 2022 is as fol

	As at 01 July 2021	Charge for the year	As at 30 June 2022
Stage 1 12 month ECL	69,982	55,426	125,408
Stage 2 Life time ECL	11,811	4,245	16,056
Stage 3 Life time ECL	190,401	(52,715)	137,685
Total	**272,194**	**6,955**	**279,149**

A reconciliation of the allowance for impairment losses for loans and receivables by class as at 30 June 2021 was as follows:

	As at 01 July 2020	Charge for the year	As at 30 June 2021
Stage 1 12 month ECL	77,875	(7,893)	69,982
Stage 2 Life time ECL	9,673	2,138	11,811
Stage 3 Life time ECL	144,044	46,357	190,401
Total	**231,592**	**40,602**	**272,194**

18 Interest Free Financing

	June 30, 2022 Birr'000	June 30, 2021 Birr'000
Murahabah Financing- Agriculture	454,792	452,912
Murahabah Financing- Construction	958,586	979,886
Murahabah Financing- Agriculture Merchandize	89,785	118,058
Murahabah Financing- Industry	518,032	463,259
Murahabah Financing- DTS	1,169,437	972,318
Murahabah Financing- Export	1,125,929	261,133
Interest Free Export Facility Financing	-	-
Murahabah Financing- Import	156,241	164,123
Murahabah financing	-	-
Murahabah Financing- Hotel and Tourism	25,272	38,348
Murahabah Financing- Transport and Communication	126,416	76,339
Muruhabah Financing- Consumer and Personal	20,574	15,973
Gross amount	4,645,064	3,542,349
Profit receivable from Murubaha Financing	-	-
Less: Deferred profit	(553,599)	(513,164)
Less: Impairment allowance (note 15a)		
- Stage 1 12 month ECL	(11,387)	(5,617)
- Stage 2 Life time ECL	(10,860)	(7,003)
- Stage 3 Life time ECL	(30,361)	(31,253)
Total Loss allowance	**(52,607)**	**(43,873)**
Total carrying amount	**4,038,858**	**2,985,313**

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Maturity analysis	30 June 2021 Birr'000	30 June 2021 Birr'000
Current	1,210,331	894,613
Non-Current	2,828,527	2,090,699
Total	**4,038,858**	**2,985,313**

18(a) Impairment allowance on Interest Free Financing

A reconciliation of the allowance for impairment losses for Interest free financing as at 30 June 2022 is as follows

	As at 01 July 2021	Charge for the year	As at 30 June 2022
Stage 1 12 month ECL	5,617	5,770	11,387
Stage 2 Life time ECL	7,003	3,857	10,860
Stage 3 Life time ECL	31,253	(892)	30,361
Total	**43,873**	**8,734**	**52,607**

A reconciliation of the allowance for impairment losses for Interest free financing as at 30 June 2021 was as follows

	As at 01 July 2021	Charge for the year	As at 30 June 2022
Stage 1 12 month ECL	6,060	(444)	5,617
Stage 2 Life time ECL	5,983	1,020	7,003
Stage 3 Life time ECL	24,986	6,267	31,253
Total	**37,030**	**6,843**	**43,873**

		30 June 2022 Birr'000	30 June 2021 Birr'000
19	**Investment securities**		
19 (a)	**Financial assets at fair value through OCI**		
	Financial assets at fair value through OCI	219,983	165,695
		219,983	165,695
19 (b)	**Financial assets at amortized cost (2018-Loans and Receivables)**		
	NBE Bills	-	6,311,992
	Treasury bills	5,576,184	-
	Ethiopian Government bonds	275,419	10,340
	Gross amount	5,851,603	6,322,332
	Less individual allowance for impairment	-	-
	Carrying amount	**5,851,603**	**6,322,332**

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	5,576,184	10,267
Non-Current	275,419	6,045,887
Total	**5,851,603**	**6,056,154**

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The equity investments made by the Bank is as summarised below:
The primary valuation technique adopted by the bank in undertaking the valuation of the investee companies is the market approach. This is because the financial information available on the investee companies consists of historical audited financial statements.

As at 30 June 2022 Investment	Number of Shares '000	Net changes in equity investments at FVOCI	Balance of FVOCI	Percentage shareholding (at FV)
Oromia Insurance S.C	50,000	5,519	55,519	25.2%
Gutu Oromia Business S.C	3,250	-	3,250	1.5%
Elemtu Integrated Dairy Industry S.C	10,000	9,998	19,998	9.1%
Elemo Kiltu House Buliding	500	1,016	1,516	0.7%
OIB ODA Real Estate PLC	10,000	(4,026)	5,974	2.7%
Ethio Switch S.C	20,968	67,207	88,175	40.1%
TPO Printing and Publishing S.C	15,000	(7,289)	7,711	3.5%
Tsehay Industry S.C	20,000	16,575	36,575	16.6%
Sheger Micro Finance S.C	3,200	(2,185)	1,015	0.5%
Sheger Smart City S.C	250.00	-	250	0.1%
Grand Total	**133,168**	**86,815**	**219,983**	**100%**

Sheger Smart City and Gutu Oromia Business Share Company are still under formation. Management has assessed investments held in the Companies approximates

fair value. On disposal of these equity investments, any related balance within the fair value / other reserve is reclassified to retained earnings.

As at 30 June 2021 Investment	Number of Shares '000	FV day 1 adjustment gain/(loss)	Balance of FVOCI	Percentage shareholding (at FV)
Oromia Insurance S.C	25,000	9,474	34,474	20.8%
Gutu Oromia Business S.C	3,250	-	3,250	2.0%
Elemtu Integrated Dairy Industry S.C	10,000	18,565	28,565	17.2%
Elemo Kiltu House Buliding	500	597	1,097	0.7%
OIB ODA Real Estate PLC	10,000	(2,072)	7,928	4.8%
Ethio Switch S.C	12,002	21,709	33,711	20.3%
TPO Printing and Publishing S.C	15,000	-	15,000	9.1%
Tsehay Industry S.C	20,000	19,421	39,421	23.8%
Sheger Micro Finance	3,200	(1,201)	1,999	1.2%
Sheger Smart City S.C	250	-	250	0.2%
Grand Total	**99,202**	**66,493**	**165,695**	**100%**

Investment	Balance of FVOCI 01 July 2021	Balance of FVOCI 30 June	Net changes in equity investments during the year
Oromia Insurance S.C	34,474	55,519	21,045
Gutu Oromia Business S.C	3,250	3,250	-
Elemtu Integrated Dairy Industry S.C	28,565	19,998	(8,566)
Elemo Kiltu House Buliding	1,097	1,516	419
OIB ODA Real Estate PLC	7,928	5,974	(1,954)
Ethio Switch S.C	33,711	88,175	54,464
TPO Printing and Publishing S.C	15,000	7,711	(7,289)
Tsehay Industry S.C	39,421	36,575	(2,846)
Sheger Micro Finance	1,999	1,015	(984)
Sheger Smart City S.C	250	250	-
Grand Total	**165,695**	**219,98**	**54,288**

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OROMIA INTERNATIONAL BANK S.C

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Additional investment during the year

Investment	30 June 2021	Addition for the year	30 June 2022
Oromia Insurance S.C	25,000	25,000	50,000
Gutu Oromia Business S.C	3,250	-	3,250
Elemtu Integrated Dairy Industry S.C	10,000	-	10,000
Elemo Kiltu House Buliding	500	-	500
OIB ODA Real Estate PLC	10,000	-	10,000
Ethio Switch S.C	12,002	8,966	20,968
TPO Printing and Publishing S.C	15,000	-	15,000
Tsehay Industry S.C	20,000	-	20,000
Sheger Micro Finance	3,200	-	3,200
Sheger Smart City S.C	250	-	250
Grand Total	**99,202**	**33,966**	**133,168**

As at 30 June 2021

Investment	Number of shares '000	Percentage shareholding
Oromia Insurance S.C	25,000	25%
Gutu Oromia Business S.C	3,250	3%
Elemtu Integrated Dairy Industry S.C	10,000	10%
Elemo Kiltu House Buliding	500	1%
OIB ODA Real Estate PLC	10,000	10%
Ethio Switch S.C	12,002	12%
TPO Printing and Publishing S.C	15,000	15%
Tsehay Industry S.C	20,000	20%
Sheger Micro Finance	3,200	0
Sheger Smart City S.C	250	0
Grand Total	**99,202**	**100%**

		30 June 2022 Birr'000	30 June 2021 Birr'000
20	**Other assets**		
	Financial assets		
	Accounts receivables	3,346	1,174
	Uncleared effects-Local	-	57,910
	Uncleared effects-Foreign	129,767	21,162
	Miscellaneous	282,770	118,560
	Guarantee for Overseas Employment Agencies	798,611	656,384
	Gross amount	**1,214,494**	**855,190**
	Less:		
	ECL for other financial asset	(61,111)	(9,345)
	Carrying amount	**1,153,383**	**845,845**
	Non-financial assets		
	Prepayments	701,569	294,320
	Prepaid staff asset	456,611	318,955
	Prepaid staff loans	-	-
	Branches under opening	28,409	4,740
	Inventory	43,368	31,765
	Total	**1,229,957**	**649,780**
	Gross amount	**2,383,340**	**1,495,625**

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Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	1,653,380	1,046,037
Non-Current	729,959	449,588
Total	**2,383,340**	**1,495,625**

20(a) ECL allowance on other assets

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

	30-Jun-2022 Birr'000	30-Jun-2021 Birr'000
Balance at the beginning of the year	**(9,345)**	**(6,637)**
(Reversal)/charge for the year (note 10)	(51,766)	(2,708)
Balance at the end of the year	**(61,111)**	**(9,345)**

20(b) Inventory

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

	30-Jun-2022 Birr'000	30-Jun-2021 Birr'000
Supplies stock account- IFB	573	480
Supplies stock account	42,795	31,285
Total	**43,368**	**31,765**

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21 Intangible Assets

Cost:	Other Software Birr'000	Core Banking Software Birr'000	Other Intangable Asset Birr'000	Total Birr'000
As at 30 June 2021	-	135,879	-	135,879
Acquisitions	10,656	8,213	40,838	59,708
Internal development		-		-
Transfer from property, plant and equipment		-		-
As at 30 June 2022	**10,656**	**144,092**	**40,838**	**195,587**
Accumulated Amortisation and Impairment Losses				
As at 30 June 2021		59,565		59,565
Amortisation for the year	269	18,580	649	19,498
Impairment losses		-		-
As at 30 June 2022	**269**	**78,145**	**649**	**79,063**

21 Intangible Assets (Contd)

Net book value				
As at 30 June 2021	-	76,314	-	76,314
As at 30 June 2022	10,387	65,948	40,189	116,524

22 Right of Use Assets

	Building lease 'Birr '000'	Land Lease 'Birr '000'	Total 'Birr '000'
COST			
As at July 1,2021	629,305	47,606	676,911
Addition	477,994	-	477,994
As at 30 June 2022	**1,107,299**	**47,606**	**1,154,905**
Deperciation			
Charge for the year	215,640	710	216,350
As at 30 June 2022	**215,640**	**710**	**216,350**
Carrying amount At 30 June 2021	**891,659**	**46,896**	**938,555**

23 Property, plant and equipment

	Buildings Birr'000	Motor vehicles Birr'000	Furniture and fittings Birr'000	Computer and accessories Birr'000	Office equipment	Constructio n in progress	Total Birr'000
Cost:							
As at 30 June 2021	**435,255**	**276,311**	**153,562**	**297,165**	**158,593**	**37,536**	**1,358,420**
Additions	54,260	107,721	75,205	69,523	30,907	300,124	637,740
Disposals	-	-	(6,386)	(670)	(1,867)		(8,923)
Reclassification	(37,100)	190	(677)	(1,429)	(1,677)	32,100	(8,593)
As at 30 June 2022	**452,414**	**384,222**	**221,704**	**364,590**	**185,956**	**369,759**	**1,978,644**
	452,414	384,222	**221,713**	364,590	185,937	369,759.12	1,978,636
Accumulated depreciat	(0)	(1)	(9)	0	19	0	9
As at 1 July 2021	**42,953**	**132,615**	**59,840**	**129,943**	**82,339**	-	**447,690**
Charge for the year	7,954	24,681	15,206	38,136	23,305	-	**109,281**
Impairement	-	-	-	-	-		-
Disposals	(5,001)	-	(4,301)	(1,414)	(3,226)	-	**(13,941)**
As at 30 June 2022	**45,906**	**157,296**	**70,745**	**166,665**	**102,418**	-	**543,030**
Net book value							
As at 01 July 2021	**392,302**	**143,696**	**93,722**	**167,221**	**76,254**	**37,536**	**910,730**
As at 30 June 2022	**406,508**	**226,926**	**150,959**	**197,925**	**83,537**	**369,759**	**1,435,614**

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Oromia International Bank S.C
Notes to the financial statements
For the year ended 30 June 2022

	30 June 2022 Birr'000	30 June 2021 Birr'000
24 Non-current assets held for sale		
Balance at the beginning of the year	37,971	31,221
Additional repossessed collateral from the borrower for the year	13,538	7,965
Transfer to property, plant and equipment	-	(5)
Transfer from property, plant and equipment	1,120	586
Disposals of repossessesd collateral	8,035)	(1,648)
Disposals of property, plant and equipment	(195)	(148)
Fair value gain/(loss) on assets held for sale	-	-
Balance at the end of the year	**44,399**	**37,971**

Oromia International Bank S.C. took over collateral of some customers and these were recorded in the books as Assets classified as held for sale as the Bank had no intention to make use of the property for administrative use. Management initiated a plan to dispose of these assets to willing buyers and expects to have completed the transaction before the end of the next financial period.

These assets have been valued by in-house engineers responsible for collateral valuation using the market approach determined using Level 3 inputs.

There is no cumulative income or expenses in OCI relating to assets held for sale.

	30 June 2022 Birr'000	30 June 2021 Birr'000
25 Deposits from customers		
Demand deposits	12,132,947	8,105,763
Saving deposits	19,627,238	17,624,689
Fixed time deposits	5,289,992	3,737,137
Foreign currency accounts	-	-
Gross amount	**37,050,177**	**29,467,589**

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	36,309,173	28,878,237
Non-Current	741,004	589,352
Total	**37,050,177**	**29,467,589**

26 Interest Free customers' deposits	30 June 2022	30 June 2021
	2,165,638	1,178,583
Wadi'ah deposits	3,991,698	3,687,752
Mudharaba deposits	313,803	11,588
Gross amount	**6,471,139**	**4,877,923**

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	6,341,716	4,780,365
Non-Current	129,423	97,558
Total	**6,471,139**	**4,877,923**

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	30 June 2022 Birr'000	30 June 2021 Birr '000
27 Other liabilities		
Financial liabilities		
TT payable	12,581	9,790
CPO & Certified Cheques issued	161,623	120,986
Account Payable Miscellaneous	191,456	126,906
Income tax payable	8,689	10,237
Tax payable on interest	6,923	6,092
Pension payable	3,981	4,987
Tax on capital gain	180	153
VAT payable	53	70
Witholding tax payable	4,007	1,736
Stamp duty charges	5,894	4,317
Exchange payable to NBE	6,912	6,325
Accrued Interest On Fixed Time Deposit	-	-
Audit fee	518	460
Dividend Payable	72,219	65,380
Letter of credit margin payables	-	529,034
Hamish Jiddya Payable	-	-
Charity Fund Payable	32,961	14,991
Uncleared effects- Foreign	-	-
Uncleared effects- Local	24,554	-
Deferred Murabaha profit	-	-
Cost Sharing Payable	295	97
Borrowings- Short Term	-	127,669
Directors Share on Profit	1,533	1,710
	534,379	**1,030,940**
Non-financial liabilities		
Other provisions for legal cases	22,584	4,510
Accrued leave payable	108,979	79,515
Deferred Income-rent	642	5,201
Unearned income	77,039	27,299
Bonus provision	148,181	95,887
	357,425	**212,412**
	891,804	**1,243,352**
Gross amount		

27 Other liabilities (continued)

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	891.804	1.243.352
Non-Current	-	-
	891,804	**1,243,352**

28 Retirement benefit obligations	30 June 2022 Birr'000	30 June 2020 Birr'000
Defined benefits liabilities:		
– Severance pay	94,078	72,362
Liability in the statement of financial position	**94,078**	**72,362**
Income statement charge included in personnel expenses:		
– Severance pay	7.224	3.730
– Long service awards		
Total defined benefit expenses	**7,224**	**3,730**
Remeasurements for:		
– Severance pay	9,071	12,466
`	**9,071**	**12,466**

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

Oromia International Bank S.C
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For the year ended 30 June 2022

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	7,224	3,730
Non-Current	86,853	68,632
	94,078	72,362

Severance pay

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

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

28 Retirement benefit obligations (continued)

	30 June 2022 Birr'000	30 June 2021 Birr'000
A Liability recognised in the financial position	94,078	72,362

B Amount recognised in the profit or loss	30 June 2022 Birr'000	30 June 2021 Birr'000
Current service cost	8,693	6,416
Interest cost	11,176	7,632
	19,869	14,048
C Amount recognised in other comprehensive income:		
Remeasurement (gains)/losses arising from changes in demographic assumptions	-	-
Remeasurement (gains)/losses arising from changes in the economic assumptions	(4,555)	(1,552)
Remeasurement (gains)/losses arising from experience	13,626	14,018
Tax credit /(charge)		
	9,071	12,466

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

	30 June 2022 Birr'000	30 June 2022 Birr'000
At the beginning of the year	72,362	49,578
Current service cost	8,693	6,416
Interest cost	11,176	7,632
Remeasurement (gains)/ losses	9,071	12,466
Benefits paid	(7,224)	(3,730)
At the end of the year	94,078	72,362

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2022 Birr'000	30 June 2021 Birr'000
Discount Rate (p.a)	14.50%	14.50%
Long term Salary Increases (p.a)	10.00%	10.00%
Inflation Rate	12.00%	12.00%
Net pre-retirement rate	2.23%	2.23%

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		30 June 2022 Birr'000	30 June 2021 Birr'000
29	**Ordinary share capital**		
	Authorised:		
	Ordinary shares of Birr 1000 each	6,000,000	6,000,000
	Issued and fully paid:		
	Ordinary shares of Birr 1000 each	4,364,892	3,463,660

30 Earnings per share

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
Profit after tax	1,201,075	871,987
Weighted average number of ordinary shares in issue	3,914,276	3,231,830
Basic & diluted earnings per share (Birr)	0.307	0.270

30 Earnings per share (Contd.)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2022:nil and 30 June 2021: nil), hence the basic and diluted loss per share have the same value.

		30 June 2022 Birr'000	30 June 2021 Birr '000
31	Retained earnings		
	At the beginning of the year	735,467	457,618
	Profit/ (Loss) for the year	1,201,075	871,987
	Prior year (over)/ under provision	-	(5,324.00
	Directors share on Profit	(1,533)	(1,710)
	Transfer to legal reserve	(300,269)	(217,997)
	Dividends paid	(157,285)	(123,313)
	Dividends held in payable account	(39,520)	(27,315)
	Dividend capitalised	(538,662)	(306,743)
	Transfer to regulatory risk reserve	-	-
	Transfer from regulatory risk reserve - Suspended interest	10,613	34,751
	Transfer to regulatory risk reserve- Provission other Assets	24,030	7,501
	Transfer to retained earnings for excess NBE provissions for Loans and Advances	(64,891)	46,010
		-	-
	At the end of the year	869,024	735,467

		30 June 2022 Birr'000	30 June 2021 Birr '000
32	**Legal reserve**		

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
At the beginning of the year	1,074,925	856,928
Transfer from profit or loss	300,269	217,997
At the end of the year	**1,375,194**	**1,074,925**

Oromia International Bank S.C
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		30 June 2022 Birr'000	30 June 2021 Birr'000
33	**Regulatory risk reserve**		
	At the beginning of the year	165,620	253,883
	Transfer to retained earnings for excess NBE provissions no longer required on application of IFRS 9	-	-
	Transfer from retained earnings- write backed suspended Interest	(10,613)	(34,751)
	Transfer to retained earnings	-	-
	Transfer from retained earnings- Provission for Other Assets	(24,030)	(7,501)
	Adjustment of Regulatory risk reserve against loan account	64,891	(46,010)
	At the end of the year	**195,869**	**165,620**

33 Regulatory risk reserve (Contd.)

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

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

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

		Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
34	**Cash generated from operating activities**			
	Profit before tax		1,518,572	1,128,965
	Adjustments for non-cash items:			
	Depreciation of property, plant and equipment	23	109,281	94,257
	Amortisation of intangible assets	21	19,498	12,239
	Gain/(Loss) on disposal of property, plant and equipment		(4,094)	(710)
	Impairment on loans and advances	17	6,955	40,602
	Impairment on interest free financing	16	8,734	6,843
	Impairment losses on other assets	20	51,766	(1,401)
	Retirement benefit obligations	28		-
	Adjustment on De-Recognised Property, Plant and equipment		3,575	1,884
	Adjustment of Property, Plant and equipment		-	-
	investment	18	-	-
	Adjustment of Provision for Legal		-	-
	Amortization of right of use assets		-	-
	Interest on leased assets	14	32,536	28,695
	Prior Period Adjustment		-	-
	Changes in working capital:			
	-Decrease/ (Increase) in loans and advances to customers	17	(5,264,393)	(4,837,087)
	-Decrease/ (Increase) in interest free financing	18	(1,062,279)	(571,113)
	-Decrease/ (Increase) in other assets	20	(939,481)	(271,618)
	-Decrease/ (Increase) in Right of Use Assets	22	(261,644)	(50,701)
	-Decrease/ (Increase) in non current assets held for sale	20	(6,428)	(6,750)
	-Increase/ (Decrease) in deposits from customers	23	7,582,588	5,684,475
	-Increase/ (Decrease) in Interest Free customers deposits	24	1,593,216	930,181
	-Increase/ (Decrease) in Other liabilities	22	(358,387)	252,895
	-Increase/ (Decrease) in Retirement benefit obligations	24	21,716	14,048
	-Decrease/ (Increase) in Restricted Deposit	15	(1,341,000)	(320,000)
	-Decrease/ (Increase) in lease liabilities	15	31,625	4,833
			1,742,357	**2,140,538**

35 Related party transactions

Oromia International Bank S.C. is a wholly owned private financial institution.

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

35(a) *Transactions with related parties*

	30 June 2022 Birr'000	30 June 2021 Birr'000
Deposits	726,987	420,800
Loans	298,725	25,867
Total	**1,025,712**	**446,667**

35 b *Key management compensation*

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2022

	30 June 2022 Birr'000	30 June 2021 Birr'000
Basic Salary (short term employee benefit)	11,346	8,875
Representation Allowance (short term employee benefit)	560	411
Provident fund (short term employee benefit)	1,585	1,802
Housing allowance	1,194	810
Bonus (short term employee benefit)	6,132	2,725
Directors Allowance	1,320	2,360
Directors' Share on profit	1,533	1,710
Total	**23,671**	**18,693**

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

36 Contingent liabilities

36a 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 2022 is Birr 279,194,481.02. Provision of birr 22.58 million has been made in the financial statements as the Directors believe that it is probable that the economic benefits would flow out of the Bank in respect of these legal actions.

36b Guarantees and letters of credit

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

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

	30 June 2022 Birr'000	30 June2021 Birr'000
Guarantees Issued and Outstanding	7,705,671	3,055,750
Commitments on Letter of Credit net of Margin Paid	528,232	327,961
Commitments on Letter of Credit net of Urbun Held	143,652	79,308
TCG Issued and Outstanding	-	-
Loan Approved but not Disbursed and IFB Financing approved but not yet Financed	1,621,272	1,013,762
Unutilized Overdraft and Other Facility	1,664,898	1,336,119
Undrawn IFB Export Facility Financing	406,436	406,436
Total	**12,070,159**	**6,219,336**

37 **Commitment**

	30 June 2022 Birr'000	30 June2021 Birr'000
Share Subscribed but not paid	17,932	-
Capital projects	2,210,955	2,920,504
Total	**2,228,887**	**2,920,504**

38 **Lease labilities - Bank as lessee**

(i) Lease liability

Maturity analysis – Contractual cash	30 June 2022 Birr'000	30 June 2021 Birr'000
Expected to be settled within 12 months after the year end	**61,053**	**49,808**
Expected to be settled more than 12 months after the year end	**283,687**	**232,086**
Total	**344,740**	**281,243**
Amounts recognised in statement of cash flows:		
Payments of principal portion of the lease liability	-	-
Interest paid on lease liabilities	32,536	28,695
Movement for the year ended 30 June2021	281,243	247,715
Balance on adoption of IFRS 16		
Additions	74,623	47,831
Interest Expense in Profit and loss	32,536	28,695
Lease payments	42,998	42,998
Total	**345,404**	**281,243**

(ii) Amounts recognised in profit or loss	**30 June 2022 2021 Birr'000**	**30 June Birr'000**
Interest on lease liabilities	32,536	23,923
Depreciation of right to use asset	216,350	150,603
Expenses relating to short-term leases		
Total	**248,886**	**174,526**

39 **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 2021 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

40 **Segment reporting**

A segment is a distinguishable component of the Bank that is engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Bank that allocates resources to and assesses the performance of the operating segments of an entity.

The Bank has determined the Board of Directors as its chief operating decision maker. All transactions between business segments are conducted on commercial terms basis with intra-segment revenue and costs being eliminated at Bank level.

Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance.

Information reported to the Bank's Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on products and services.

The accounting policies of the reportable segments are the same as the Bank's accounting policies described in note 2.

For management purposes, the Bank has been organised into two operating segments based on products and services, as follows:

1. Interest Free Banking- All Islamic banking products offered to customers are included under the Islamic Banking segment. These products include Wadiah deposits, Amanah deposits and mudarabah investments.
2. Conventional Banking- The conventional banking segment comprises of corporate and commercial banking customers in various sectors which include agriculture, manufacturing, domestic trade, construction, hotel and tourism, microfinance institutions, mortgage loans and personal loans

Oromia International Bank S.C
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For the year ended 30 June 2022

Segment reporting (continued)

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are based on the Bank's internal pricing framework.
No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2021 or 2022.

Profit segments

At 30 June 2022	**Conventional Banking** Birr "000	**Interest Free Banking** Birr "000	**Segment adjustments** Birr "000	**Bank** Birr "000
Interest income	4,109,366	-	-	4,109,366
Income from Interest free financing and investment products	-	358,343	-	358,343
Interest expense	1,653,553			1,653,553
Distribution to depositors- Interest Free Banking Products		31370		31370
Net interest income and income from Interest Free Banking products net of distribution to depositors	2,455,813	326,973	-	2,782,786
Fee and commission income	904,136	115,633	-	1,019,769
Fee and commission expense	-	-	-	-
Net fees and commission income	904,136	115,633	-	1,019,769
Other operating income	286,459	16,106	-	302,565
Loan impairment charge	6,955	8,734	-	15,689
Impairment losses on other assets	51,766	-	-	51,766
Inter–segment revenues/expenses				
Net operating income	227,738	7,372	-	235,110
Armotisation of intangible assets	19,498	-	-	19,498
Depreciation of property and equipment	109,281	-	-	109,281
Personal and Other operating expenses	2,282,761	107,553		2,390,314
Segment Profit before tax	**1,176,147**	**342,425**		**1,518,572**
Income tax expense	214,769	102,728		317,497
Segment profit after tax	**961,377**	**239,698**		**1,201,075**
Assets				
Additions to property and equipment	637,740	-		637,740
Additions to other intangible assets	8,213			8,213
Total assets	**46,895,323**	**5,149,854**		**52,045,177**
Total liabilities	**40,292,153**	**4,910,156**		**45,202,309**

Oromia International Bank S.C
Notes to the financial statements
For the year ended 30 June 2022

Profit segments

At 30 June 2021	Conventional Banking Birr "000	Interest Free Banking Birr "000	Segment adjustments Birr "000	Birr "000
Interest income	3,462,577	-	-	3,462,577
Income from Interest free financing and investment products	-	326,051	-	326,051
Interest expense	1,397,375			1,397,375
Distribution to depositors- Interest Free Banking Products		788		788
Net interest income and income from Interest Free Banking products net of distribution to depositors	**2,065,202**	**325,263**	-	**2,390,465**
Fee and commission income	540,199	79,359	-	619,558
Fee and commission expense	-	-	-	-
Net fees and commission income	540,199	79,359	-	619,558
Other operating income	101,661	11,060	-	112,721
Loan impairment charge	40,602	6,843	-	47,445
Impairment losses on other assets	(1,401)	-	-	(1,401)
Inter–segment revenues/expenses				-
Net operating income	2,667,861	408,839	-	3,076,700
Armotisation of intangible assets	12,239	-	-	12,239
Depreciation of property and equipment	94,257	-	-	94,257
Personal and Other operating expenses	1,733,359	107,879		1,841,238
Segment Profit before tax	**828,005**	**300,959**		**1,128,964**
				-
Income tax expense	166,689	90,288		256,977
Segment profit after tax	**661,316**	**210,672**		**871,988**
Assets				-
Additions to property and equipment	191,859	-		191,859
Additions to other intangible assets	46,232	-		46,232
Total assets	**36,541,186**	**5,149,854**		**41,691,040**
Total liabilities	**31,286,754**	**4,934,392**		**36,221,146**

Our Bank received a Quality Choice Award from European Society for Quality Research; Spain, Barcelona.

OB donated to Borena and Guji zones victims of draught as part of its CSR

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OROMIA INSURANCE S.C.

Main Products

General Insurance

Animal and Crop Insurances

Life Assurance

&

Takaful Insurance

Put Your Money Where it Grows

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