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Beyond Financing!

ANNUAL REPORT
2021/22

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AMHARA BANK
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Beyond Financing!

VISION

To be a leading and game changing bank in Africa.

MISSION

To provide a wide-ranging, accessible, reliable and innovative financial and non-financial solutions through state-of-the-art technology by competent and ethical professionals in a socially responsible manner with a client-oriented culture

CORE VALUES

I CARE

I : Innovative and inclusive;

C : Community and Customer Focus;

A : Accountability and Accessibility;

R : Responsible and Respect;

E : Efficiency and Effectiveness.

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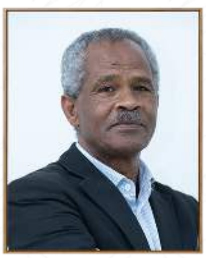

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ATO HAILU MOGES
DEPUTY CHIEF PEOPLE OFFICER

MESSAGE FROM CHAIRPERSON OF THE BOARD OF DIRECTORS

Dear honorable shareholders, it is my pleasure to present our first historic Annual Report of Amhara Bank for the 2021/22 FY, on behalf of my fellow Board members and myself. I also feel delighted to have been part of and led the remarkable journey that the Bank has undertaken to stand firmly where it is today.

The year was marked with a great achievement for all of us, as we all successfully realized our ambition to bring the Bank into service. The success would not have been possible if it were not for the synergized efforts of teams organized to establish the Bank, shareholders, organizing committee and staff demonstrating their resilience in the face of a host of testing situations, and worked in tune with the operating context and regulatory stipulations to nurture a solid footing for the future. Most importantly, the strong public acceptance and unfaltering support provided by shareholders mainly become our strength and ardent spirit to work with synergy toward the common goal of launching ABa into the industry successfully on June 18th, 2022.

Over the year, the country has been facing multidimensional shocks, emanating both from the national and global situations. The effects of the prolonged war and political instabilities across many parts of Ethiopia, which have long been affecting economic activities in some places, driving up inflation and disrupting the supply chain, further accentuated by the global commodity price hike and energy crisis triggered mainly owing to the war between Russia and Ukraine. Despite these and other challenges from other external and industry-specific situations, the policy and administrative responses taken by the government and the various deep reforms made so far have underpinned the positive trajectory registered in the year at the national as well as industry levels.

Nonetheless, over the course of the year, the harmony of all stakeholders who worked together as a single and supportive ABa family, turned out to be our lever to unleash our commitment, organize resources, and become more strategic to confront all the challenges and establish all the enabling situations; while placing customers at the center of our efforts and activities.

The period under review was also notably marked by the execution of various major works aiming at formulating more appealing value propositions to better meet client needs, tap into market potential across the various segments, augment market reach through diversified means, foster new ways of working that are anchored on agile, innovative and collaborative principles, attract and develop a talented and diverse workforce and build the image of the Bank.

Alongside the aforementioned tasks, the support from our shareholders and community at large primarily motivated us and triggered the urge to commence the operation before the end of FY 2021/22. The wide public acceptance was observed the moment the Bank opened its door to the public, queue of customers flooded in all branches. These, as a result, helped us to attract more than 82 thousand customers within the remaining 11 working days of the fiscal year and mobilized Birr 401.1 million, backed by 1,425 competent and motivated staff.

Upon the official commencement 72 branches became operational and the number increased to 75 by the end of June 30, 2022. The Bank has also embarked to pursue its commitment of realizing digital accessibility by deploying eight ATMs in Addis Ababa and Bahir Dar as a token.

With respect to financial returns, the Bank generated total revenue of Birr 531 million, which was mainly contributed by share-subscription fees collected during share sells. And it incurred total expense of Birr 294 million, resulting a profit before tax of Birr 237 million as of June 30, 2022.

The endeavor to raise share capital, prior to licensing, was also a success as the Bank was able to amass a notable amount of Birr 4.8 billion paid-up capital from scratch. The amount could have been significantly higher if the remaining shareholders who did not sign the Memorandum of Association did.

Going forward, given the practically manifested interest of customers to work with us, and most importantly, the openly declared aspiration of the Bank to provide more inclusive service to our customers, we will be committed to deliver superior customer service by designing different products and services that cater to the needs of different segments of society in domestic, international and interest free baking platforms. Furthermore, to establish a sustainable relationship with customers and attract new ones, the Bank will continue deepening our diversification strategy via both branch network and digital channels.

Towards realizing our ambitions to be "The Game-Changing Bank", the extensive focus shall also be given to fostering operational excellence, innovation, and the digitalization of our operations. To this end, in addition to automating the customer service and back-office operations using advanced technologies, prior attention will be given to provide different tech savvy digital products, such as: omni-channel banking, digital branch, ITM and Mobile branches.

We will also ensure that our principle of providing service beyond financing are well embedded in our day-to-day activities, and hence, we will work further toward addressing the interest of customers across individual, retail, and SME customer segments subsequently.

The unprecedented change of the banking industry landscape, following Council of Ministers decision of allowing foreign investment in the financial sector and participation of non-financial service providers, such as: telecoms and fintechs in financial service delivery, will bring both opportunities and challenges. In order to lesson these challnges and enhance the capcity to leverage the advantages, the exising banks have already commenced to take alternatives mitigative decisions, such as deciding to raise their paid-up capital.

To this end, despite the Bank joining the industry with a historically higher initial paid-up capital, it is still notably lower than most of the front-runner existing banks and going forward the amount will be less able to adequately accomdate all the expected changes.

Hence, it is essential to raise the level of paid-up capital both through fufiling the existing subscribed capital as well as approving additional shares to be subscribed for the coming period, mainly to make the Bank more competitive, enable it effectively cope up with the unprecedented changes, and prevail over the competition foreign and domestic.

Along with the aforementioned tasks, the Bank is also working to remain vigilant in the market and proactively respond with the appropriate strategy.

To this end, the Bank is hiring international consultant to craft its Five-Year Strategic Plan and ten Years implementation roadmap, in collaboration with in-house counterparty team to facilitate knowledge transfer and seamless implementation.

To maintain the momentum the Bank has had so far and effectively meet its long-term objectives, shareholders' engagement in supporting the Bank and mobilization of their personal and business associations is paramount.

Meanwhile, the Bank will continue to give due focus to recruite staff, which have the right skill-set and attiude; and conduct extensive staff development to enhace their capabilities and level of engagement. The Bank will also continue to fully rollout the performance management system and automate human resource system.

Finally, I would like to express my sincere appreciation to our esteemed customers for their trust and confidence, and would like to reassure them that we will continue to accompany them in realizing their ambitions. I, also, wish to express my sincere gratitude to the management of the Bank and our talented employees for their commitment and relentless effort to bring the Bank into operation. In addition, I would like to take this opportunity to once again express my deepest appreciation and gratitude to our shareholders for your unwavering trust and support provided in all respects. Last but not least, I would like to commend the National Bank of Ethiopia for its guidance and support.

Melkau Fenta
Chairperson, Board of Directors

MESSAGE FROM THE CEO

I am honored to convey my maiden message on the annual performance report of Amhara Bank, as a founding Chief Executive Officer. I am also glad to have been entrusted to lay a solid foundation for the Bank and bring the dreams of the people who invested most in this initiative alive. This could not have been materialized if not for entwined effort and commitment exerted, organizing committee, Board of Directors and staffs.

Amhara Bank started its operation in the face of a hostile environment when the country has been undergoing a host of challenges emanating both from domestic and global fronts. The global economy which has been weathering the challenge posed by COVID-19 had confronted with new challenge, i.e., Russia-Ukraine war, reversing the gains from pandemic recovery, exacerbated supply-chain disruption, notably affecting production activities, deepening inflationary pressures, squeezing real income and undermining macroeconomic stability in all economies. On the domestic front, the Ethiopian economy has been buffeted by a confluence of shocks in the year mainly with recurrent war in the northern part and conflicts elsewhere the prevalence of the prolonged political conflict and war, which led to no or slow economic activities in the war-ravaged areas. However, against all these odds, the country remained resilient and exceeded expectations in registering positive growth. Hence, despite these challenges the banking industry has shown strong out-turns in most key performance indicators.

As major endeavors in the first year of its establishment, kick-starting the Bank's initial operation effectively and building the competencies that allows it to ensure providing quality services to its customers were the utmost attention of all stakeholders in the year. In effect, all resources and capabilities were geared towards pursuing executable strategies that could support building sustainable capabilities so as to deliver long-term values for all stakeholders. Consequently, the effort made for the pre-operation stage has finally bore fruit, which made Amhara Bank reality by successfully joining the industry on June 18th, 2022 with a colorful inaugural ceremony held at its headquarters. Its opening of 72 branches in its first day was also unprecedented, which later increased to 75 branches at the end of the fiscal year. The day was also marked with conducting various corporate social responsibilities, such as sponsoring Anbessa City Bus tickets for all travelers in Addis Ababa, providing gifts for those who gave birth in selected hospitals across the width and breadth of the nation, donating blood to save thousands of lives, and tree plantation by staff, along with different activities undertaken using branches opened in different locations.

Building on the efforts by various stakeholders in bringing the Bank operation to fruition and consequent engagement in meeting the high expectation of our customers and the general public made it possible for the Bank to register commendable performance in its maiden year of 2021/22 FY. Accordingly, the Bank mobilized Birr 401.1 million using more than 82 thousand depositors attracted by 75 branches in the reporting period. Besides, the Bank also generated a revenue amounting to Birr 531 million, expended Birr 294 million and registered a profit before tax of Birr 237 million, which was notably contributed by the share subscription fee collected during the sale of share capital. On the other hand, the Bank has also shown its devotion to being digitally accessible since its inception by operationalizing eight ATMs in Addis Ababa and Bahirdar by effectively integrating with the Eth-Switch payment system.

As an important objective going forward, we remain committed to further embedding its strategic aspiration of becoming "The leading and game changing Bank in Africa" alongside meeting its well-established philosophy of "Beyond Financing". Mindful of these, therefore, we will do what it takes to address the needs of different segments of society through our development financing wing in an increasingly proactive and adaptive manner. Besides, along with continuing to put into application different advanced technologies to automate its operation and enhance operational excellence, the Bank will deploy digital service offerings to leverage the availability of tech-savvy and educated youth using omni-channel banking, ATM, PoS; and digital branch in addition to concluding integration with other organizations that facilitate digital payment system and enhancing accessibility further.

Furthermore, the unprecedented change of the banking industry landscape following Council of Ministers decision of allowing foreign investment in the financial sector; participation of non-financial service providers such as telecoms and fin-tec in financial service delivery; will bring both opportunities and challenges. Hence, the Bank needs to be vigilant on the dynamics in the operating environment and respond with appropriate strategy. To this end, the Bank is hiring international consultant to craft its Five-Year Strategic Plan and ten Years implementation roadmap, in collaboration with in-house counterparty team to facilitate knowledge transfer and seamless implementation.

Finally, I wish to express my sincere gratitude to our esteemed customers who chose to bank with us and were our strength in the journey to lay a sturdy foundation. In the same vein, I wish to express my sincere gratitude to our employees for their hard work in helping the organization meet its objectives and to the National Bank of Ethiopia, the Financial Intelligence Center, and other stakeholders for their supervision and support. Besides, I would like to express my appreciation to teams from the project office and organizing committee for your remarkable efforts and commitment and to the Board of Directors for your valuable support, dedication, and guidance in steering the Bank in organizing resources and time to bring the Bank into operation successfully.

I am sure, with patronage of our esteemed customers on our side, support and guidance from the Board of Directors, and dedicated leadership and staff, we will reach the height of our vision and exceed expectation, in satisfying all stakeholders.

Henok Kebede
CEO


PUMA

BOARD OF DIRECTORS' REPORT

The Board of Directors of Amhara Bank presents the highlights of the major progress registered in key banking operations and the Auditor's Report to the first Annual and Extraordinary General Assembly of shareholders for the year ended June 30, 2022.

1. MAJOR PRE-OPERATING WORKS

Before the Executive Management officially took over the transitional process in December 2021, some management members had been working with the project office and Board of Directors in order to swiftly conclude the transitional process and commence operation. Consequently, the Executive Management along with other professional staff of the Bank and close support of Board members had been working relentlessly and collaboratively in order to execute various projects and major works according to the action plan in order to effectively kick-start its initial operation as well as lay solid foundation for the period ahead. The major tasks that were undertaken during this time include:

- Crafting and approving various policies, procedures, guidelines, manuals, and templates in alignment with the Bank's long-term aspiration, governing body directives, rules and regulations;
- Initiating and procuring office equipment and furnitures through bid with close support from the relevant Board Sub-committee;
- Leasing the head office and main branch building and making it ready for work;
- Select and recruit professional and support staff according to the staff establishment plan as per the guideline prepared for the purpose;
- Commencing the deployment and application of an efficient and modern Core Banking System and datacenter that allows streamlining the banking application effectively;
- Worked on to develop various conventional, interest free and digital banking products/service offerings;
- Conduct early assessment to identify potential areas for branch expansion in different parts of the country, and identify, negotiate and secure feasible branch premises;
- Worked with brand consultant and external capacity to aggressively promote the Bank and undertake pre and post launching branding activities;
- Regular updates to the Board of Directors regarding the interim progress made on planned activities so that timely and appropriate directions were provided;
- Extending unstinted and collaborative efforts to fulfill the requirement of the National Bank of Ethiopia to get permission for the provision of different conventional and interest-free banking operations;

- Gathering and consolidating data of the shareholders found in various banks, preparing profiles of the Board of Directors, submitting an application to the National Bank of Ethiopia to start the signing of the signatures of the shareholders on the Memorandum of Association;
- Preparing the annual plan for FY 2021/22 and 2022/23 and commencing the implementation, and others.

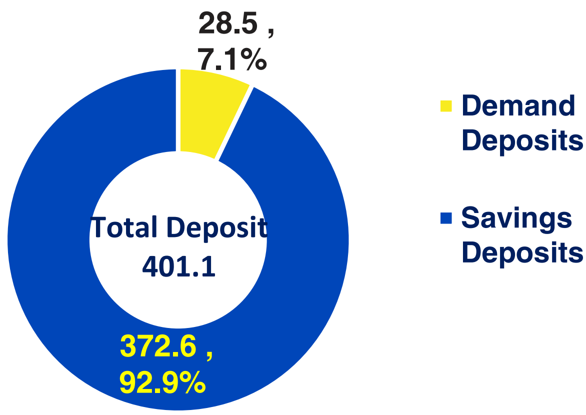
2. OPERATIONAL HIGHLIGHTS

Deposit Mobilization

The profitability of banks hinges on the effective and efficient mobilization of resources. Consequently, due engagement and efforts were directed to establishing foundation that would enhance the Bank's capcity in resource mobilization for the period and years to come. Accordingly, various activities were undertaken to underpin the deposit mobilization process. This includes, but not limited to, developing the required information technologies and infrastructures, providing effective and efficient products/services, expanding branches across the width and breadth of the nation, continuously conducting extensive promotional and image building activities, and deploying adequate, well-trained and qualified staff at all levels.

Against the backdrop of these endeavors, the Bank mobilized total deposit of Birr 401.1 million in just 11 working days of the 2021/22 FY. Of these deposits, saving deposit accounted the lion's share of 93% (Birr 372.6 million); while the remaining amount (Birr 28.5 million, 7%) is from demand deposit.

Deposit Mobilization as of June 30, 2022
(In Million Birr)



Reaching Out Customers

Since the Bank launched its operations, customers remained at the center of our attention, and this heavily led us to dedicatedly deliver more quality services. Accordingly, aiming to attract and retain customers aggressively and prevail in the industry, various major initiatives that provide innovative and convenient propositions to the customers, such as mass branch opening, aggressive promotional campaigns, launching various products and services, and partly commencing digital services were some of major endeavors executed in the reporting period. Hence, more than 82 thousand depositors opened in the 11 days of the fiscal year. Of these, 98% or 80,251 are saving depositors, while the remaining 728 and 1,035 accounts were opened by demand and interest free banking depositors, respectively.

Branch Expansion

As set in the strategic plan of the Bank to address the need of unbanked as well as banked communities, diversification of accessibility is one of the core values of the Bank. It is to this end that the Bank put into operation 72 branches at a time on its colorful inauguration day. Subsequently, the Bank opened additional three branches and brought the total number of branches to 75 at the end of FY 2021/22. To effectively run the branches and continue to increase their number with such swift pace, they are organized under three regions, i.e., Northern, South East and South West regions.

Furthermore, as the number of branches is one of the determinant factors to reach out customers and mobilize deposit, various preliminary works were undertaken for branches that opened subsequently.

3. FINANCIAL HIGHLIGHTS

Asset

As of June 30, 2022, the total asset reached Birr 7.1 billion. Of the total asset, the fund deposited in other commercial banks took the lion's share of 81% or Birr 5.7 billion.

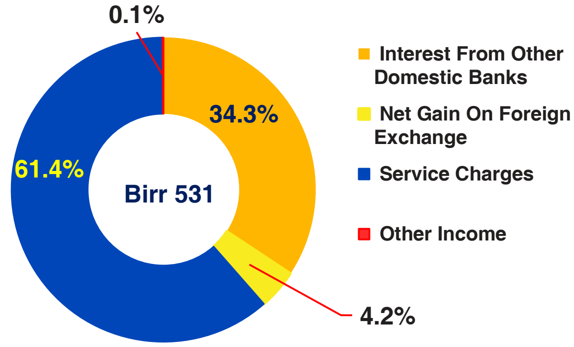
Paid-up Capital

The total paid-up capital of the bank as of June 30, 2022 was Birr 4.8 billion. The amount of paid-up capital would have been higher if the shareholders who did not sign on the Memorandum & Article of Association did.

Revenue

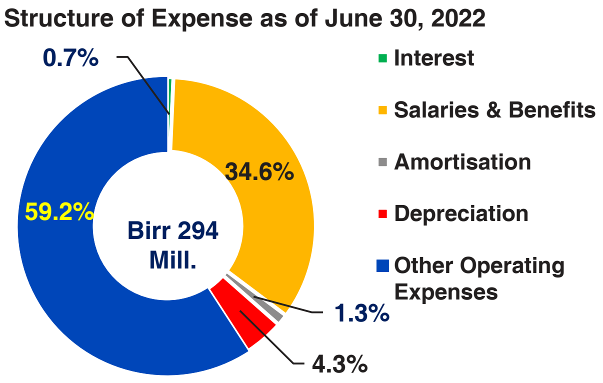
The total revenue the Bank as of June 30, 2022, is Birr 531 million. Of the total income, about two-thirds was obtained from service charge (Birr 325.8 million), which was significantly contributed by share subscription fees, while the effort to get interest income from depositing funds in other commercial banks was the second largest income source during the reporting period (Birr 182.1 million). The Bank has also generated income of Birr 22.5 million from net gain on foreign exchange by managing foreign currency mobilized from diaspora shareholders.

Structure of Income as of June 30, 2022



Expense

As of June 30, 2022, the total expense of the Bank is Birr 294 million. Of the total expense, the largest proportion of Birr 174 million was paid for the operating expenses mainly to finance expenses related to advertisement, payment effected to register shareholders on Document Authentication and Registration Agency (DARA) and other administrative expenses incurred before and after the commencement of operation. Whereas, the amount paid for staff salaries and benefits, depreciation and impairment of property, plant and equipment, amortization of intangible assets, and interest expense paid for depositors constituted the remaining amount of Birr 101.6 million, Birr 12.7 million, Birr 3.7 million, and Birr 2.1 million, correspondingly.



Profit

As a result of the aforementioned income and expense, the Bank registered a gross profit before tax of Birr 237 million as of June 30, 2022. Consequently, the earning per share for the share capital with a par value of Birr 1,000 stood at Birr 40.80 for the reporting period.

4. NON-FINANCIAL HIGHLIGHTS

People Management

Fulfilling the right level of staff is one of the most important factors to effectively rollout the transition processes and create a suitable ground for the years to come. Accordingly, all the relevant stakeholders have made tireless efforts in order to select staffs that have the right skillset having extensive banking experience as well as who fulfill the requirements of the National Bank of Ethiopia.

Accordingly, 1,408 permanent and 17 contract staff were employed as of June 30, 2022. A look at the staff mixes shows that sizeable part of the staff managed to be professional with at least a bachelor degree (67 percent of the total staff). While the remaining (33 percent) are support staff, and of which, most of them are security officers. Owing to joining the market with a higher number of branches, the significant part of the staff size was assigned to work at the branch: 88% (1,249 staff), while the remaining staff assigned to work at different head office units.

As a contemporary organization aspiring to triumph and become one of the key actors in the industry, human capital development is an integral part of its effective strategy implementation. In effect, various major capacity development activities and preliminary works including putting into operation different policies and procedures, conducting need assessment, conducting various trainings and onboarding programs with internal and external capacity were some of the few worth mentioning activities in the period under review. Accordingly, as of June 30, 2022, the Bank has organized various training programs for 1,277 staff with a total investment of Birr 4.6 million. Besides, continuous improvement works have also been undertaken to automate human resource processes which particularly includes effectively processing of data collection, storing, dissemination and analysis.

Information Technology

In line with the Bank's overall objective of providing wide-ranging, accessible, reliable, and innovative financial and non-financial solutions through state-of-the-art technology, utmost attention and adequate resources were dedicated to the development of modern technologies. It has been simplifing our processes, build resilience in our operations and provide our customers with an enjoyable experience at every interaction with us in our quest to become "The Leading and Game-Changing Bank in Africa".

Inherently the Bank begun its endeavor in this regard by successfully deploying the first phase of the CBS in collaboration with the vendor (T24) and the implementer (USI). The initial stage, that enabled the Bank to streamline and commence customer creation, account opening, and basic transactions for customers, was successfully completed before the it opened its doors to the public. Designing and building various critical modules that required streamlining various products and services and underpinning the back-office processes, such as Retail, Finance, and Interest Free Banking were also completed and put into operation. Besides, the Bank has also continued developing other modules, such as Credit and Trade Services.

In order to swiftly commence operation, the Primary and Secondary Server, Active Directory, and Domain Controller were installed, the FTP server for all branches was configured, and the issue tracking system was customized.

The Bank has also successfully integrated with EthSwitch, DARA, NBE, and Ethio Telecom; while undertaking SMS gateway and the first phase of the share management system.

With respect to the data center, until the Bank could establish its own data center, which is highly recommended to be constructed in own building due to the notable investment and security issues, a decision was made to find an alternative option. Hence, the Bank concluded datacenter colocation service agreement with Ethio-telecom, and subsequently, all the infrastructure resources were installed, configured, and became ready for operation before the Bank commencement of its initial operation.

Digital Banking

In addition to developing different systems and infrastructure to streamline the operation, ABa, has also been engaging in developing technological capabilities to avail alternative digital banking service offerings. To this end, the effort to reach the customer via ATM machines has already commenced since the onset of its initial operation using the first eight machines in Addis Ababa and Bahir Dar by successfully integrating with Eth-Switch to accept other banks' cards. In parallel, the systems for reconciling and settling the transactions for ATM has developed, and the process to procure additional ATM and POS machines has commenced. Later, the effort to get alternative options for card issuance, which will be operationalized until the Bank established its own card personalization system, has already commenced.

To enhance the presence and visibility of its digital banking products and services, the preliminary works have also started to develop the capabilities that could cater to the Bank's competitive edge by using hi-tech and digitally-enabled platforms across all touch points, such as mobile, internet, and agency banking.

Risk Management

As key enablers to achieve our strategic objectives, the risk management process is of strategic importance to the Bank, and to this end that due emphasis was laid on embedding a more rigorous risk and compliance system. As a new entrant institution, Amhara Bank also could be exposed to a multitude of risks that would have their own ramification, requiring sound and proactive risk management system.

Hence, with the ultimate goal of creating a safer and more secure business environment, utmost attention has been given and an independent Risk and Compliance Management Department was established in line with regulatory requirement, to implement an effective risk management system and develop a risk culture across the Bank by enhancing risk response decisions, reducing operational surprises and losses, identifying and managing cross-enterprise risks, and providing integrated responses to multiple risks.

By developing and implementing a robust Risk Management Program (RMP), the unit commenced the identification of potential risks during its establishment, which may pose long-term impacts, and recommended mitigation techniques for risks that could potentially impede its operation.

Mindful of the growing national and international regulatory requirements, the relentless effort also made to employ effective Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) systems across the Bank to protect the Bank from potential financial and non-financial losses.

Corporate Social Responsibility

In its enduring commitment to discharge social responsibilities and as part of meeting one of the Bank's strategic objectives of making business beyond financing, the Bank gave due attention and allocated resources for various corporate social responsibility activities and initiatives in the few working days of the year.

Sponsoring Anbessa City Bus tickets for all travelers in Addis Ababa and providing gifts for those who gave birth in selected hospitals across the nation on its official inauguration day, tree plantation in various places and organizing the Bank's staff to donate blood in various regions, were some of the few worth mentioning corporate social responsibility activities undertaken in the period. As a follow-up of Bank's long-term aspiration of creating sustainable partnership with the community, the Bank has already commenced conducting a thorough assessment in order to identify the priority areas which should be addressed in the forthcoming period, and which will also enable the Bank to efficiently and effectively design, implement and manage all the initiatives meant to embed the its engagement with the communities in the future.

Way Forward

Amhara Bank has joined the Ethiopian banking industry when the market faced with unprecedented dynamics in terms of policy shift as well as players mix. The policy shift which paved the way for entry of foreign banks, establishment of capital market, allowing telecoms to engage in the financial sector, including foreign telecom operators and other fintechs brought the industry to a new level of dynamics. To the extent that the development entails both opportunities and challenges, in which the Bank is working on proactively respond so as to overcome the challenges and tap opportunities.

To this end, the Bank is engaged in various key initiatives and projects including IT, digital and human capital in order to excel in these vital fronts and be able to navigate seamlessly through the dynamics.

To account for the unprecedented changes in the industry as well as the changes in the global and macro settings, and to respond to these changes, the Executive Management and Board of Directors of the Bank found it necessary to review the existing strategy. For this, renowned international consulting firm will be hired.

To remain viable in the competitive environment, deploying state-of-the art technology and digital excellence would make a difference. Hence, these will continue to be key focus area. The Bank will further accelerate the use of cutting-edge technologies towards making banking operations much more effective and efficient, and accessible to its valued customers. This will play a pivotal role in helping the Bank to tap to emerging opportunities through wide-ranging payment solutions and allowing our customers to undertake transactions in an easier, faster, and safer way.

Moreover, in an attempt to build a sustainable future for all stakeholders and promote operational excellence, the Bank will further collaborate and exert its level-best-effort to execute all the preset initiatives. And these focal areas are: enhancing its accessibility via physical and digital channels, availing a wide range of products/services that will continue to address the interest of different segment of the society, instilling a high-performance culture amongst our employees and continuing to invest in them to develop a future-ready, talented and engaged workforce, avail reliable and convenient service quality, foster customer service relationships, enhancing resource mobilization and utilization capacity, establishing a more streamlined organization, excelling process effectiveness, maintaining and enhancing strong brand image.

Simulteanously, it is also the Bank's topmost priority to continue pursuing its philosophy of making business "Beyond Financing". As aspiring community bank, Amhara Bank is committed to sustain and support customers ranging from individuals to SMEs and make its contribution to the welfare of the society through executing various socially responsible initiatives to establish a long-term relationship with the community at large.

Building on the achievements so far, and considering the dynamics in the operating environment, Amhara Bank will remain true to its promise anchored in its "Beyond Financing" tag line and make difference in the way of doing business and live up to its vision of becoming "Becoming the leading and game changing bank in Africa".

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AMHARA BANK

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Beyond Financing!

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MERHABA

Use Amhara Bank Interest Free Banking Services!

External Auditor's Report

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INDEPENDENT AUDITOR'S REPORT ON THE ACCOUNTS OF AMHARA BANK SHARE COMPANY

Report on the Audit of the financial statement

Opinion

We have audited the financial statements of Amhara Bank Share Company specified on page 3-45, which comprise the statement of financial position as at 30 June 2022, the statement profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the period from 11 February 2022 to 30 June 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2022, and its financial performance and its cash flows for the period from 11 February 2022 to 30 June 2022 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Responsibilities of Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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.

Report on other Legal and Regulatory requirement

We have no comment to make on the report of your Board of Directors so far as it relates to these financial statements in accordance with the Commercial Code of Ethiopia of 2021 (Proclamation No-1243/2021), recommend approval of the financial statements.

Taf Shi CAy

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

Tafesse,Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants (UK)
Authorized Auditors (ETH)

Addis Ababa
26 October 2022

AMHARA BANK SHARE COMPANY

CORPORATE INFORMATION

FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

Company registration number
MT/AA/1/0052689/2014 E.C (Ethiopian Calender)

License number
LBB/028/2022 G.C (Gregorian Calender)

Directors (As of 30 June 2022)

Melaku Fanta Chay	Board of Director (Chair Person)	(Appointed February 2021)
Ababu Emru Zeneb	Board of Director (Member)	(Appointed February 2021)
Ayinalem Baylie	Board of Director (Member)	(Appointed February 2021)
Berhan Hailu Dagne	Board of Director (Member)	(Appointed February 2021)
Gambi PLC (Gebeyaw Tiruneh DR.)	Board of Director (Member)	(Appointed February 2021)
Gomeju Oil Eth. (Tewodros Yeshiwas)	Board of Director (Member)	(Appointed February 2021)
Hailemariyam Temesegen Mekonnen	Board of Director (Member)	(Appointed February 2021)
Letenah Ejigu Wale (DR.)	Board of Director (Member)	(Appointed February 2021)
Mesenbet Shenkutie Abebe	Board of Director (Member)	(Appointed February 2021)
Mulugeta G/Medhin Kassie (DR.)	Board of Director (Member)	(Appointed February 2021)
Seid Nuru (DR.)	Board of Director (Member)	(Appointed February 2021)
Solomon Wondimeneh Banjaw	Board of Director (Member)	(Appointed February 2021)

Executive management (As of 30 June 2022)

Henok Kebede Tadesse	Chief Executive Officer	(Appointed December 2021)
Kindie Abebe Alemayehu	Chief Corporate Services Officer	(Appointed December 2021)
Chanyalew Demissie Bekele	Chief Banking Operations Officer	(Appointed December 2021)
Dawit Teffera Degefu	Chief IT Officer	(Appointed December 2021)
Hailu Moges Teklu	Deputy Chief People Officer	(Appointed December 2021)
Adugna Abebe Alemneh	Regional Vice President	(Appointed December 2021)
Eshete Yemata Aycheh	Regional Vice President	(Appointed December 2021)
Befikadu Chernet Bisewer	Deputy Chief Digital Banking Officer	(Appointed February 2022)
Bizuayehu Seyoum Tsehaye	Chief Banking Business Officer	(Appointed January 2022)
Belay Gorfu Kerssie	Chief Strategy and Innovation Officer	(Appointed January 2022)
Mengistu Hailu Tsegaye	Regional Vice President	(Appointed January 2022)
Abeba Yohannes Gebremedihen	Director, Talent Management	(Appointed December 2021)
Alemayehu Tefire Girefe	Director, Digital Operations	(Appointed December 2021)
Aschalew Tamiru Gebremichael	Director, Marketing & Corporate Communication	(Appointed December 2021)
Ayelign Abuhay G/Egziabher	Director, Share Administration	(Appointed December 2021)
Behailu Gulilat Bisrat	Director, Internal Audit	(Appointed December 2021)
Firehiwot Girma Kebede	Director, Risk Management and Compliance	(Appointed December 2021)
Getu Bedilu Hailemariam	Director, Talent Development	(Appointed December 2021)
Lealem Getachew Fikre	Director, International Banking	(Appointed December 2021)
Nigatu Wolde Asfaw	Director, Research & Development	(Appointed December 2021)
Teshome Abebe Beyene	Director, Development Financing and Advisory	(Appointed December 2021)
Zeweldu Betremariam Demessie	Director, Engineering Service	(Appointed December 2021)
Elias Tirit Gelaw	Director, Property Administration and Facilities	(Appointed December 2021)
Eskiyas Tafesse W/Tsadik	Board Secretary	(Appointed February 2022)
Mesfin Beyene Belay	Director, Finance	(Appointed February 2022)
Osman Mohammed Yimer	Director, IFB	(Appointed February 2022)
Admass Mulugeta Asefa	Executive Assistant to the CEO	(Appointed January 2022)
Endalish Woldemichael Taye	Director, Strategy and Change Management	(Appointed January 2022)
Fentabil Fikdau Demeke	Director, Branch Operations & Customer Experience	(Appointed January 2022)
Ghenet Berhane Ghebru	Director, Corporate Banking	(Appointed January 2022)
Mulugeta Ambelu Fenta	Director, Credit Analysis & Portfolio Management	(Appointed January 2022)
Wubalem Fekadeselassie Lemma	Director, Digital Banking	(Appointed January 2022)
Ermias Zewde Desta	Director, Applications Development and Systems	(Appointed March 2022)
Melaku Meseret Mengistu	Director, Legal Services	(Appointed March 2022)
Tamrat Andarge Agiz	Director, Technology Infrastructure	(Appointed March 2022)

Independent auditor
Tafesse Simachew and Ayalew (TMS Pplus) Certified Audit Partnreship
Chartered Certified Accountants
P.O Box
Addis Ababa
Ethiopia

Corporate office
Amhara Bank Share Company
Kirkos sub-city,Woreda 07,Around Laghar
P O Box 28450 Code 1000
Addis Ababa, Ethiopia

AMHARA BANK SHARE COMPANY
REPORT OF THE DIRECTORS
FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

The directors submit their report together with the financial statements for the period ended 30 June 2022, to the members of Amhara Bank (“ the Bank”). This report discloses the financial performance and state of affairs of the Bank.

Incorporation and address

Amhara Bank (ABa) is a share company was established on February 08, 2022 with business license issued as per banking business proclamation no. 592/2008. It commenced operation with an authorized and paid up capital of birr 4.8 billion and 6.5 billion respectively. It comprises astonishing number of shareholders amounting more than 141,000.

Principal activities

The Bank aspired to be accessible to the segments of the community that the finance industry did not pay attention to and to assist individuals who lacked access to financing, in order to enhance their economic activity. Furthermore, ABa aims to use the enabling conditions to provide an excellent service that appeals to the ever-diversifying and growing needs of customers that are demanding more from banks in the form of personalized and competitive banking services.

Results and dividends

The Bank’s results for the year ended 30 June 2022 are set out on page 27 The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2022 Birr’000
Net interest income	180,086
Profit (loss) before tax	236,964
Tax (charge) credit	(39,853)
Profit (loss) for the year	**197,111**
Other comprehensive profit / (loss) net of taxes	-
Total comprehensive profit (loss) for the year	**197,111**

AMHARA BANK SHARE COMPANY
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE PERIOD 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 statements standards, whether their designation changes or they are replaced, from time to time.

The Bank's Directors is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles generally accepted in Ethiopia and in the manner required by the Commercial Code of Ethiopia of 1243/2021, 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 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 the aforementioned Proclamation.

The Bank's Directors accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, Banking Business Proclamation, Commercial code of 1243/2021 and the relevant Directives issued by the National Bank of Ethiopia.

The Directors is 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:

Melaku Fenta
Board Chairperson

Tefesse, Shleema & Ayalew TMS Plus Certified Audit Partnership

Henok Kebede
Chief Excutive Officer

AMHARA BANK SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

	Notes	30 June 2022 Birr'000
Interest income	5	182,143
Interest expense	6	(2,058)
Net interest income		**180,086**
Other operating income	7	348,860
Total operating income		**528,945**
Personnel expenses	8	(101,597)
Amortisation of intangible assets	14	(3,686)
Depreciation and impairment of property, plant and equipment	15	(12,735)
Other operating expenses	9	(173,963)
		(291,981)
Profit before tax		236,964
Income tax expense	10,a	(39,853)
Profit after tax		**197,111**
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		-
Deferred tax liability/asset on remeasurement gain or loss		-
Remeasurement gain / loss on fair value of Equity investment		-
Deferred tax liability/asset on on fair value of Equity investment		-
		-
Total comprehensive income for the period		**197,111**
Basic and Diluted earnings per share (Birr)	19	**0.04**

The notes on pages 31 to 86 are an integral part of these financial statements.

AMHARA BANK SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	30 June 2022 Birr'000
ASSETS		
Cash and balances with banks	11	5,919,179
Investment securities:		
Equity Share Investement	12	10,222
Other assets	13	87,750
Intangible assets	14	58,963
Property, plant and equipment	15	477,484
Right of use asset	16	519,642
Total assets		**7,073,240**
LIABILITIES		
Deposits from customers	17	401,097
Current tax liabilities	10,c	18,478
Other liabilities	18	1,603,537
Deferred tax liabilities	10,e	21,375
Total liabilities		**2,044,487**
EQUITY		
Share capital	19	4,831,642
Retained earnings	20	147,833
Legal reserve	21	49,278
Total equity		**5,028,753**
Total equity and liabilities		**7,073,240**

The notes on pages 31 to 86 are an integral part of these financial statements.

The financial statements on pages 27 to 30 were approved and authorised for issue by the board of directors on October 26/ 2022 and were signed on its behalf by:

Melaku Fenta
Board Chairperson

Henock Kebede
Chief Excutive Officer

AMHARA BANK SHARE COMPANY

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

	Notes	Share capital	Retained earnings	Other reserves	Legal reserve	Regulatory risk reserve	Special reserve	Total
		Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
As at 11 Feberuary 2021		4,825,764	-	-	-	-	-	4,825,764
Profit for the period			197,111					197,111
Contribution of equity		5,878						5,878
Transfer to legal reserve	21		(49,278)		49,278			-
Total comprehensive income for the period		**5,878**	**147,833**	**-**	**49,278**	**-**	**-**	**202,989**
As at 30 June 2022		**4,831,642**	**147,833**	**-**	**49,278**	**-**	**-**	**5,028,753**

The notes on pages 31 to 86 are an integral part of these financial statements.

AMHARA BANK SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

	Notes	30 June 2022 Birr'000
Cash flows from operating activities		
Cash generated from operations	22	2,170,269
Net cash (outflow) inflow from operating activities		**2,170,269**
Cash flows from investing activities		
Purchase of investment securities	12	(10,222)
Purchase of intangible assets	14	(62,649)
Purchase of property, plant and equipment	15	(490,219)
Right of use asset	16	(519,642)
Net cash (out ow) inflow from investing activities		**(1,082,732)**
Cash flows from financing activities		
Proceeds from issues of shares	19	4,831,642
Net cash (outflow) inflow from financing activities		**4,831,642**
Net increase (decrease) in cash and cash equivalents		**5,919,179**
Cash and cash equivalents at the end of the year	11	**5,919,179**

The notes on pages 31 to 86 are an integral part of these financial statements.

AMHARA BANK SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

1 General information

Amhara Bank SC ("the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank became operational on 18 June 2022 in accordance with the provisions of the Commercial code of Ethiopia of 1243/2021 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank registered address is at:

Amhara Bank Share Company
Kirkos sub-city,Woreda 08,Around Leghar
P O Box 28450 Code 1000
Addis Ababa, Ethiopia

The bank is involved in provision of banking services for all, the grand principle of the bank is healthy competition over rivalry and mutual growth rather than growing at the expense of others.

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

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.

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

- available-for-sale financial assets, certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less cost of disposal, and
- defined benefit pension plans – plan assets measured at fair value.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2.2.1 Going concern

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

2.2.2 New standards and amendments to existing standards

The Bank has consistently applied the accounting policies to all periods presented in these financial statements.

2.3 SIGNIFICANT ACCOUNTING POLICIES

2.3.1 Financial assets and financial liabilities

a. Recognition and initial measurement

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

A financial asset or financial liability shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

b. Classification and subsequent measurement

i) Financial assets

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

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

— The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). `

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

— The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

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

Business model assessment

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

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

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

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

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

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

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

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

ii) Financial liabilities

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

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

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

c. Impairment

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

The Bank shall recognize loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
— financial assets that are debt instruments;
— lease receivables;
— financial guarantee contracts issued; and
— Loan commitments issued.
No impairment loss shall be recognised on equity investments.

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

— debt investment securities that are determined to have low credit risk at the reporting date; and

— Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables shall always be measured at an amount equal to lifetime ECL.

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

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

i) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It shall be measured as follows:

— for financial assets that are not credit-impaired at the reporting date (stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);

— For financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;

— for undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

— For financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Restructured financial assets

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

— If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset

— If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

iii) Credit-impaired financial assets

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

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

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

— significant financial difficulty of the borrower or issuer;

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

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

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

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

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

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

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

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

v) Write-off

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

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

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

vi) Non-integral financial guarantee contracts

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

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

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

d. Derecognition

i) Financial assets

The Bank shall derecognize a financial asset when:

- The contractual right to the cash flows from the financial asset expires (see also (1.4)), or
- It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI shall be recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI shall not be recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank shall be recognised as a separate asset or liability.

ii) Financial liabilities

The Bank shall derecognize a financial liability when its contractual obligations are discharged or cancelled, or expire.

e. Modifications of financial assets and financial liabilities

i) Financial assets

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

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

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

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

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

Where the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank shall first recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and shall be amortized over the remaining term of the modified financial asset.

Where such a modification is carried out because of financial difficulties of the borrower, then the gain or loss shall be presented together with impairment losses. In other cases, it shall be presented as interest income calculated using the effective interest rate method.

ii) Financial liabilities

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

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

f. Offsetting

Financial assets and financial liabilities shall be offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

g. Designation at fair value through profit or loss

i) Financial assets

At initial recognition, the Bank may designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

ii) Financial liabilities

The Bank shall designate certain financial liabilities as at FVTPL in either of the following circumstances:

— the liabilities are managed, evaluated and reported internally on a fair value basis; or

— the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.3.2 Net interest income

a. Effective interest rate and amortized cost

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 amortized cost of the financial liability.

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

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

b. Amortized cost and gross carrying amount

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

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

C. Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

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

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

d. Presentation

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

— interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;

— interest on debt instruments measured at FVOCI calculated on an effective interest basis;

— 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.

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

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

2.3.3 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

2.3.4 Recognition of income and expenses

“Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank, earns income from interest on loans given for domestic trade and services, building and construction, manufacturing, agriculture and personal loans. Other incomes includes margins on letter of credits and performance gaurantees.

2.3.5 Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available– for–sale interest income or expense is recorded using the Effective Interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR), but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities.

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

2.3.6 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 such as correspondent charges and estimation fees, are recognised as the related services are performed.

When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expenses relates mainly to transaction and service fees are expensed as the services are received.

2.3.7 Dividend income

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

2.3.8 Foreign exchange revaluation gains or losses

These are gains and losses arising on settlement and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency's spot rate of exchange at the reporting date. This amount is recognised in the income statement and it is further broken down into realised and unrealised portion. The monetary assets and liabilities include financial assets within the cash and bank balances, foreign currencies deposits received and held on behalf of third parties.

2.3.9 Cash and cash equivalents

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

2.3.10 Property, plant and Equipment

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

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

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

Asset category	Years	Residual values
Buildings	50	5% of cost
Computer and Accessories	5	1% of Cost
Motor vehicles	10	5% of cost
Furniture and fittings	10	1% of Cost
Other and office equiment- Short lived	5	1% of Cost
Other and office equiment Medium -lived	10	1% of Cost
Other and office equiment -Long lived	25	1% of Cost
Counter and Partision	10	1% of Cost
ATM and POS	10	1% of Cost

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.3.11 Intangible assets

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

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

Description	Years	Residual value
Softwares	5	Nil

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

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement. An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition. Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet. A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

2.3.13 Impairment of non-financial assets

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

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

The Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.
For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.3.14 Other assets

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

(a) Prepayment

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

(b) Other receivables

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

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

2.3.15 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.6.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.6.2

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.

2.3.16 Employee benefits

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

(a) Defined contribution plan

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

(b) Defined benefit plan

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

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

Past-service costs are recognised immediately in income.

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

(c) Termination benefits

Termination benefits are payable to 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.

(d) Profit-sharing and bonus plans

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

2.3.17 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.

2.3.18 Share capital

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

2.3.19 Legal reserve

The legal reserve which is a statutory reserve to which no less than 25% of the net profits after taxation shall be transferred each year until such fund is equal to the capital. When the legal reserve equals the capital of the bank, the amount to be transferred to the legal reserve account shall be 10% of the annual net profit.

2.3.20 IFRS 16 - Leases

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The adoption of IFRS 16 requires the Bank to make a number of assumptions, estimations and judgments that includes:

- lease liabilities were determined based on the value of the remaining lease payments, discounted by an appropriate incremental borrowing rate.
- term of each arrengment was based on the original lease term.
- The discount rate used to determine lease liabilities was the Bank's incremental borrowing rate. It was calculated based on observable inputs.

At the commencement date, the Bank recognized:

all leases as right right-of-use-asset at cost. Cost of right-of-use asset includes the amount of lease liability, lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

a lease liability at the present value of the lease payments that are not paid at that date. Present value of lease payments will be determined by discounting future lease payments at the interest rate implicit in the lease arrangement, if it is readily determined or at Bank's incremental borrowing rate.

After the commencement date, the Bank masures:

right-of-use assets using cost model, i.e. cost at initial recognition less accumulated depreciation (in line with IAS 16: Property, plant and Equipment) and accumulated impairment losses (in line with IAS 36: Impairment of Assets).

- lease liability by increasing its carrying amount to reflect interest on the lease liability and by reducing its carrying amount to reflect lease payments made.
- Interest incurred on lease liability will be recognized in the statement of profit and loss as a finance cost.

Determination of whether an arrangement is a lease, or contains a lease

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

Bank as a lessor

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

2.3.21 Income taxation

a) Current income tax

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

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

b) Deferred tax

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

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

2.3.22 Significant accounting estimates and assumptions

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

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

- Capital management Note 4.5
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.2.7

a) 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.

b) Impairment losses on loans and receivables

Regarding impairment of financial instruments the bank needs to do the detail presented in Note 2.3.1 of this financial statement.

2.3.23 Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.6 for further disclosures.

2.3.24 Depreciation and carrying value of property, plant and equipment

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

2.3.25 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.

In assessing whether there is any indication that an asset may be impaired, the Bank considers the following indications:

(i) External information

there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

- significant changes with an adverse effect on the Bank have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Bank operates or in the market to which an asset is dedicated.
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(ii) Internal information

- evidence is available of obsolescence or physical damage of an asset.
- significant changes with an adverse effect on the Bank have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

2.3.26 Taxes

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

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

4 Financial risk management

4.1 Introduction

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

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

4.1.1 Risk management structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Board has established the Loan Review and Risk sub-Committee, which are responsible for developing and monitoring Bank's risk management policies.

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

Risk management policies and systems are reviewed regularly to reflect changes in the regulation, market conditions, products and services offered. The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank's Board of Directors is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Board of Directors is assisted in these functions by the Risk and Compliance Department.

The Risk and Compliance Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Risk sub Committee.

4.1.2 Risk measurement and reporting systems

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

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

4.1.3 Risk mitigation

Risk controls and mitigants, identified and approved for the Bank, are documented for existing and new processes and systems.The adequacy of these mitigants is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently audited as part of the review process.

4.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and other financial assets.

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

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

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

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

4.2.3 Investment securities designated as at FVTPL

i) At 30 June 2022, the Bank had no exposure to credit risk of the investment securities designated as at FVTPL

4.2.4 Amounts arising from ECL

i) Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 2.3.15

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

— Utilisation of the granted limit

— Requests for and granting of forbearance

— Existing and forecast changes in business, financial and economic conditions

i) Generating the term structure of PD

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

ii) 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. What is considered significant differs for different types of lending.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling:

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.

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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).

iii) 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

— t 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 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 in the overall macroeconomic environment are experienced.

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

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

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

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4.2.5 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.

4.2.6 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.
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.

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.

4.2.7 Concentrations of credit risk

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities.

4.3 Liquidity risk

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

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

4.3.1 Management of liquidity risk

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

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

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

4.3.2 Financing arrangements

The Bank has access to the following undrawn borrowing facilities at the end of the reporting period:

4.3.3 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	50,105	75,205	125,500	100,570	49,717
Other liabilities	66,120	118,069	551,100	628,371	239,876
Total Financial Liabilities	**116,225**	**193,274**	**676,600**	**728,941**	**289,592**

4.4 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.

4.4.1 Management of market risk

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

4.4.2 Management of market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk. The Bank's exposure to the risk of changes in market interest rates relates primarily to the Bank's obligations and financial assets with floating interest rates. The Bank is also exposed on fixed rate financial assets and financial liabilities. The Bank's investment portfolio is comprised of treasury bills, Ethiopian government bonds and cash deposits.

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

30 June 2022	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	5,734,751	137,361	47,067	5,919,179
Total	**5,734,751**	**137,361**	**47,067**	**5,919,179**
Liabilities				
Deposits from customers	390,676	-	10,421	401,097
Other liabilities	1,363,661	-	239,876	1,603,537
Total	**1,754,336**	**-**	**250,297**	**2,004,634**

(ii) Foreign exchange risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end is shown below.

Foreign currency denominated balances

	30 June 2022 Birr'000
Cash and bank balances	87,712
Deposit from customers	-
	87,712

Sensitivity analysis for foreign exchange risk

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

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

30 June 2022	Carrying amount Birr'000	10% increase in basis point Birr'000	10% decrease in basis point Birr'000
	87,712	**8,771**	**(8,771)**

4.5 Capital management

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

4.5.1 Capital adequacy ratio

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

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. Capital includes capital contribution, retained earnings, legal reserve and other reserves.

	30 June 2022 Birr'000
Capital	
Capital contribution	4,831,642
Retained earnings	147,833
Legal reserve	49,278
	5,028,753
Risk weighted assets	
Risk weighted balance for on-balance sheet items	5,325,648
Credit equivalents for off-balance sheet items	958,923
	11,313,324
Risk-weighted Capital Adequacy Ratio (CAR)	44%
Minimum required capital	8%
Excess	36%

4.6 Fair value of financial assets and liabilities

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

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

4.6.1. Valuation models

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

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

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

- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) .This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data. In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

4.6.2 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 amount Birr'000	Fair value Birr'000
Financial assets		
Cash and balances with banks	5,919,179	5,919,179
Investment securities	10,222	10,222
Total	5,929,401.19	5,929,401
Financial liabilities		
Deposits from customers	401,097	401,097
Other liabilities	1,603,537	1,603,537
Total	2,004,634	2,004,634

The bank Equity investment in Eth-Switch s.c with a cost of 10.22 million have not been measured for Fair value. Due to non availablity of stock market we can't measure it with first hand information.

Cost:	Carrying amount Birr'000	Fair value Birr'000
Eth-Switch s.c	10,222	10,222
Fair value As at 30 June 2022	**10,222**	**10,222**

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		30 June 2022 Birr'000
5	**Interest income**	
	Interest on deposits with domestic banks	182,143
		182,143

		30 June 2022 Birr'000
6	**Interest expense**	
	Interest on customer savings	9
	Interest expenses - right of use asset	2,049
		2,058

		30 June 2022 Birr'000
7	**Other operating income**	
	Net gain on foreign exchange	22,471
	Service charges	325,816
	Other income	572
		348,860

		30 June 2022 Birr'000
8	**Personnel expenses**	
	Short term employee benefits :	
	Salaries and wages	70,149
	Staff allowances	15,968
	Overtime	83
	Pension costs – Defined contribution plan	9,948
	Other staff expenses	5,449
		101,597
	Long term employee benefits :	
	Pension costs - Defined benefit plans	-
		101,597

		30 June 2022 Birr'000
9	**Other operating expenses**	
	Deprciation expenses - right of use asset	24,621
	Office supplies and sundry	22,015
	Advertisement and Publicity	92,348
	Electricity, telephone and internet	186
	Travelling expenses	3,326
	Repairs and maintenance	3,649
	Event organization expense	9,994
	Fuel and lubricants	37
	Per diem administration	3,104
	Insurance	365
	Entertainment	350
	Director fees	1,320
	Bank charges	1
	Subscription and Publication	1,864
	Wages for non employees	755
	Audit fees	188
	Postage and stamps	9
	Security and cleaninig expenses	1,309
	Car rent	4,595
	Stamp duty charge	3,928
		173,963
10	**Company income and deferred tax**	
10,a	**Current income tax**	
	Company income tax	18,478
	Prior year (over)/under provision	-
	Deferred income tax/(credit) to profit or loss	21,375
	Total charge to profit or loss	**39,853**

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10,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
Profit before tax	**236,964**
Add:Disallowed expenses	
Entertainment	350
Deprciation for accounting purpose	12,735
Amortization for accounting purpose	3,686
Accrud leave Expense	3,696
Depreciaion and interest expense IFRS 16	23,159
Total disallowable expenses	**43,626**
Less: Allowable expenses	
Deprciation for tax purpose	9,411
Interest on deposits with domestic banks	182,143
Amortization for tax purpose	4,879
Depreciaion (Office rent) expense for tax purpose	22,564
Total allowable expenses	**218,998**
Taxable profit	**61,592**
Current tax at 30%	**18,478**

10,c **Current income tax liability**

	30 June 2022 Birr'000
Balance at the beginning of the year	-
Current year provision	18,478
WHT Notes utilised	-
Payment during the year	-
Balance at the end of the year	**18,478**

10,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
The analysis of deferred tax assets/(liabilities) is as follows:	
To be recovered after more than 12 months	21,375
To be recovered within 12 months	-
	21,375

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

Deferred income tax assets/(liabilities):	**At 1 July 2021 Birr'000**	**Credit/ (charge) to P/L Birr'000**	**Effect of opening balance restatment Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2022**
Property, plant and equipment	-	21,375	-	-	21,375
Post employment benefit obligation	-	-	-	-	-
Equity Securities	-	-	-	-	-
Total deferred tax assets/(liabilities)	-	21,375	-	-	21,375

AMHARA BANK SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
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		30 June 2022 Birr'000
11	**Cash and balances with banks**	
	Cash in hand	137,361
	Balance held with National Bank of Ethiopia	47,067
	Deposits with local banks	5,734,751
	Deposits with foreign banks	-
		5,919,179

	30 June 2022 Birr'000
Maturity analysis	
Current	5,919,179
Non-Current	-
	5,919,179

		30 June 2022 Birr'000
12	**Investment securities**	
	Fair value through other comprhensive income	
	Equity Investments	10,222
		10,222

	30 June 2022 Birr'000
Maturity analysis	
Current	-
Non-Current	10,222
	10,222

The Bank hold equity investments in Eth-switch. These investments are unquoted equity securities measured at cost.

		30 June 2022 Birr'000
13	**Other assets**	
	Financial assets	
	Items in course of collection	551
	Uncleared effects	1,619
		2,170
	Non-financial assets	
	Deposit and Prepayments	278
	Sundry receivables	50,035
	Inventory and office supplies	35,266
		85,580
	Less :	
	Impairment allowance on other assets	-
	Gross amount	**87,750**

Maturity analysis

	30 June 2022 Birr'000
Current	87,750
Non-Current	-
Impairment allowance on other assets	
	87,750

13,b **Inventory**

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

	30 June 2022 Birr'000
Stationary Stock	17,726
Other Stock Items	8,078
Uniform Stock	6,451
Cheque Books	2,389
CPO Stock	622
	35,266

14 **Intangible Assets-Purchased software**

	30 June 2022 Birr'000
Cost:	
As at 30 June 2022	
Acquisitions Intangible Assets	62,649
Reclassifications	-
	62,649
Accumulated amortisation and impairment losses	
As at 30 June 2022	-
Amortisation for the year	(3,686)
Impairment losses	-
	(3,686)
Net book value	
As at 30 June 2022	**58,963**

15 **Property, plant and equipment**

	Motor vehicles Birr'000	Premises Birr'000	Office and other equipment Birr'000	Furniture and fittings Birr'000	Computer and accessories Birr'000	Total Birr'000
Cost:						
As at june 30 2022	228,957	-	143,370	55,103	62,788	490,219
Disposals	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
	228,957	**-**	**143,370**	**55,103**	**62,788**	**490,219**
Accumulated depreciation						
As at june 30 2022						
Charge for the year	3,490		4,800	902	3,544	12,735
Disposals	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
	3,490	**-**	**4,800**	**902**	**3,544**	**12,735**
Net book value As at 30 June 2022	**225,468**	**-**	**138,571**	**54,201**	**59,244**	**477,484**

16 **The right of use asset**

	30 June 2022 Birr'000
Cost:	
As at 30 June 2022	
Acquisitions	540,752
Accumulated deprciation	(21,110)
Reclassifications	-
Net book value as at 30 June 2022	**519,642**

17 **Deposits from customers**

	30 June 2022 Birr'000
Demand deposits	28,519
Savings deposits	372,578
	401,097

18 **Other liabilities**

	30 June 2022 Birr'000
Non-financial liabilities	
Other payable	77,597
Tax payable	10,676
Interest Tax Payable On Deposit	0.4
VAT Payable	6,579
Defined contribution liabilities	3,926
Payable to share subscribers	1,252,864
Witholding tax payable	5,161
Leave days accrual	3,696
Stamp duty payables	876
Audit fee	103
Lease Liabilities	242,058
	1,603,537

AMHARA BANK SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 FEBRUARY 2021 TO 30 JUNE 2022

18,a **Lease Liablity**

	30 June 2022 Birr'000
Cost:	
Lease Liabilities- right of use asset	242,058
	-
As at 30 June 2022	**242,058**

	30 June 2022 Birr'000
19 **Ordinary share capital**	
Authorised:	
Ordinary shares of Birr 1000 each	6,516,328
Issued and fully paid:	
Ordinary shares of Birr 1000 each	4,831,642

Earning per share

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

	30 June 2022 Birr'000
Profit attriutable to shareholders	197,111
Weighted average number of ordinary shares in issue	4,828,703
Basic and diluted earnings per share (Birr)	0.04

	30 June 2022 Birr'000
20 **Retained earnings**	
At the beginning of the year	-
Profit (Loss) for the year	197,111
Transfer to legal reserve	(49,278)
At the end of the year	**147,833**

		30 June 2022 Birr'000
21	**Legal reserve**	
	At the beginning of the year	-
	Transfer from profit or loss	49,278
	At the end of the year	**49,278**

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

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia(NBE) to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the incurred loss model. Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank. Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

		Notes	30 June 2022 Birr'000
22	**Cash generated from operating activities**		
	Profit before tax		**236,964**
	Adjustments for non-cash items:		
	Depreciation of property, plant and equipment	14	12,735
	Amortisation of intangible assets	15	3,686
	- Decrease/ (Increase) in other asset	13	(87,750)
	- Decrease/ (Increase) in other liablities	16	1,603,537
	- Decrease/ (Increase) in deposits from customer	17	401,097
	- Decrease/ (Increase) in remeasurement		-
			2,170,269

23 **Related party transactions**

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

	30 June 2022 Birr'000
23,a **Transactions with related parties**	
Loans disbursed to :	-
Key management	-
	-

24,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
Salaries and other short-term employee benefits	12,104
Post-employment benefits	769
Termination benefits	-
Sitting allowance (Representation Allowance)	1,117
Other expenses	-
	13,990

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

25 Directors and employees

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

	30 June 2022 Birr'000
Professionals and High Level Supervisors	174
Semi-professional, Administrative and Clerical	732
Technician and Skilled	407
	1,313

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

	30 June 2022 Birr'000
10,000 - 30,000	762
30,001 - 50,000	92
50,001 - 100,000	72
Above 100,000	11
	937

26 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 2022 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.





የአማራ ባንክ የምረቃ እና
የስራ አጀማመር ፎቶዎች በከፊል

የአማራ ባንክ የምረቃ እና የስራ አጀማመር በፎቶ

የአማራ ባንክ የምረቃ እና የስራ አጀማመር በፎቶ

የአማራ ባንክ የደም ልገሳ መርሀግብር በፎቶ