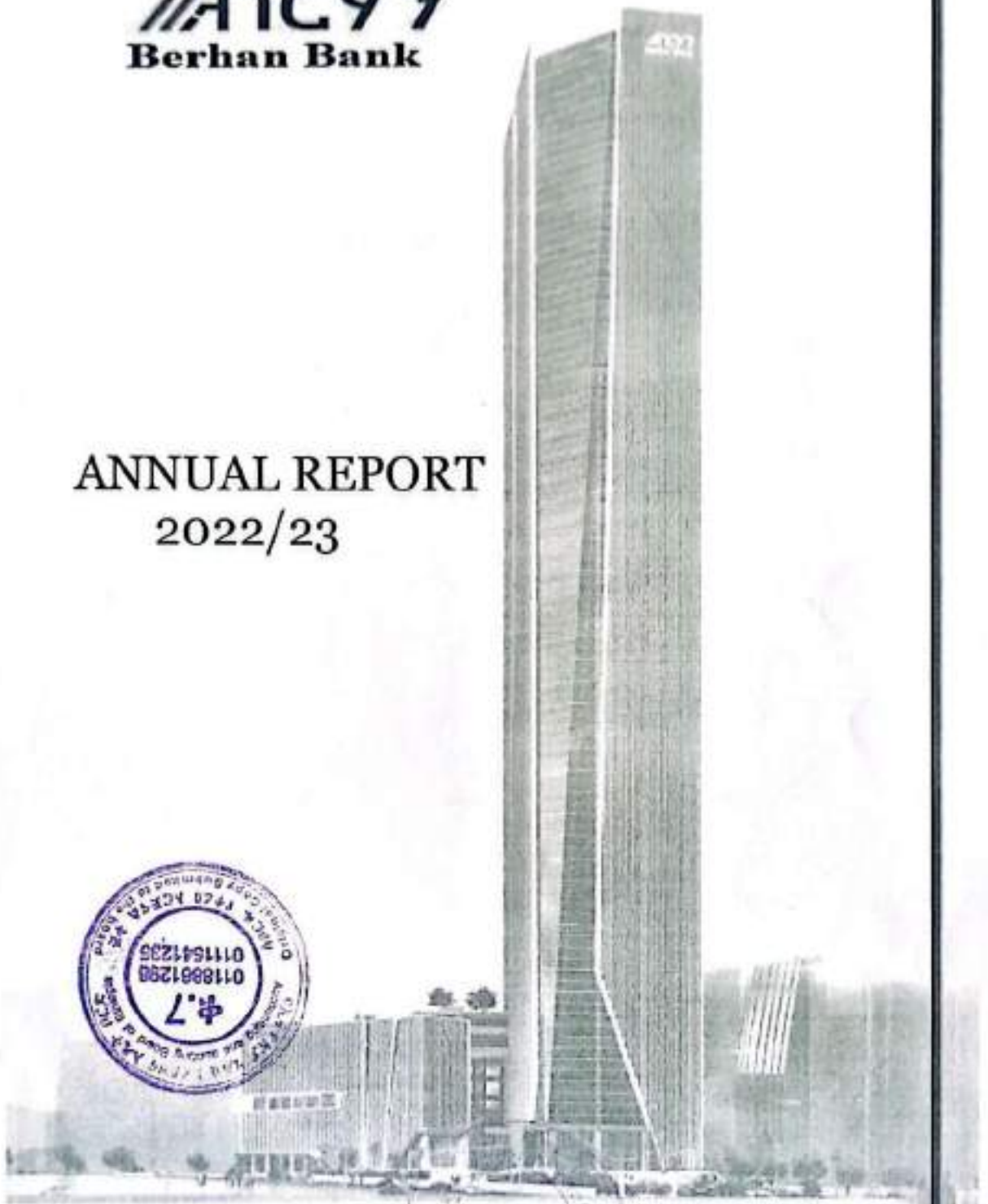




ANNUAL REPORT 2022/23



Berhan Bank S.C
For the period ended 30 June 2023
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PD	Probability of Default
LGD	Loss Given Default
EAD	Exposure at Default
ECL	Expected credit losses
EPS	Earnings per share
FLI	Forward-Looking-Information
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
LTV	Loan-to-Value
OCI	Other comprehensive income
SPPI	Solely payments of principal and interest



Berhan Bank S.C
For the period ended 30 June 2023
Directors, professional advisers and registered office

Company registration number
 BL/AA/2/0002442/2005

Directors (As of July 1, 2023)

Ato Gumachew Kussie Lemita	Chairperson	Appointed on 29 Mar 2021
Dr. Nardos Berehanu Wudneh	V/Chairperson	Appointed on 29 Mar 2021
Wzo. Meron Gezahegn Seifu	Member	Appointed on 29 Mar 2021
Ato Endashaw Kassa Zewdie	Member	Appointed on 29 Mar 2021
Ato Ermas Girma Tekle	Member	Appointed on 29 Mar 2021
Eng. Seblewongel Assefa Beyene	Member	Appointed on 29 Mar 2021
Ato Eligo Legesse Mota	Member	Appointed on 29 Mar 2021
Dr. Fasil Nahom Abaji	Member	Appointed on 29 Mar 2021
Dr. Aynalem Abayneh Mamo	Member	Appointed on 29 Mar 2021
Ato Fuad Hassen Edris	Member	Appointed on 18 July 2022
Dr. Lemma Degefa Gudeta	Member	Appointed on 31 May 2023

Executive management (As of July 1, 2023)

Girum Tsedaye Kassa	President	Appointed on 01- Feb -2022
Bethlehem Getachew Metaferia	VP- Customer Accounts and Digital Banking	Appointed on 01-Jan 2021
Solomon Assefa Haile	VP- Operations	Appointed on 01-Jan- 2023
Amanuel Tadese W/Gebriel	VP-Corporate Service	Appointed on 01-Jan- 2021
Desta Bekalo Sapa	VP- Strategy and Marketing	Appointed on 26-Dec- 2022
Rodas Solomon Aweltu	Acting VP-Chief Information Officer	Appointed on 01-June-2022
Wale Yirga Yizaw	Assistant Vice President-Human Capital Management	Appointed on 01-July 2022
Daniel G/Medihin Kahsay	Executive Assistant to the President	Appointed on 01-July 2022
Desalegn Fissehatsion Altaseb	Director - Finance and Accounts	Appointed on 29-Jan-2014
Belay Mebrat Tegen	Director - IT Application Support and Development	Appointed on 16-Dec-2021
Rahel Alem Ayalew	Director-Digital Banking Application	Appointed on 24-Sep-2021
Yared Aguade Wubneh	Director- Engineering & Valuation	Appointed on 28-Oct-2015
Assefa Taye Ketema	Director- Legal Service	Appointed on 26-June 2020
Bereket Teketel Wachamo	Director- Portfolio Management and Credit Follow-up	Appointed on 25-June-2020
Anteneh Mekonnen Maru	Director- Risk Management and Compliance	Appointed on 23-Nov-2016
Thomas Desalegn Beyene	Director- Talent Development	Appointed on 01-July 2022
Shimelis Tesfaye Reta	Director, Internal Audit	Appointed on 31-Mar-2023
Masresha Hailemickael Gonfa	Director-Corporate Customer & Relationship	Appointed on 01-Mar-2017
Million Zeleke Tessema	Director-Credit Analysis and Appraisal	Appointed on 01-Jan-2023
Elsa Ketema Gebre	Director-Customer Accounts and Resource Mobilization	Appointed on 01-July 2022
Feyera Ejeta Gurmeissa	Director-Digital Financial Service	Appointed on 01-Jan- 2021
Tilahun Endris Seid	Director-Facility Management	Appointed on 25-June-2020
Semenawit Abadi Kewaw	Director-Planning and Strategic Management	Appointed on 01-Mar-2017
Dagnaw Kasahun Mengesha	Director-Research and Business Development	Appointed on 17-Dec- 2021
Kidist Ameham Kidane	Director-Trade Service	Appointed on 01-Mar-2018

Berhan Bank S.C
For the period ended 30 June 2023
Directors, professional advisers and registered office

Tesfaye Maru Abate	Director-Treasury and Investment	Appointed on 01-Mar-2018
Lale Itana Ayana	Director- Marketing and Corporate Communication	Appointed on 01-April- 2023
Habtemariam Gebeyehu	Deputy Director- Legal Services	Appointed on 01-July- 2022
Tegegn		
Netsanet Tilahun Leliso	Deputy Director- Share Administration	Appointed on 28-Jan 2021
Hagos Berhane Desta	Deputy Director- Trade Service	Appointed on 13-Dec-2021
Binyam Mesfin Demeke	Director-Central Addis District	Appointed on 16-Dec- 2021
Sirak Amare Shiferaw	Director-East Addis District	Appointed on 01-Dec-2021
Dereje Getaneh Tesema	Director -North District	Appointed on 01-Dec-2021
Melaku Yakob Eshoo	Director- East District	Appointed on 01-Dec- 2021
Bayissa Milkessa Filla	Director-West District	Appointed on 20-Feb-2023
Ermyas Girma Taye	Director-South District	Appointed on 01-Jan 2022
Thomas Desalegn Beyene	Acting Director- Talent Management	Appointed on 31-March 2023
Fikremarkos Yigrem Mekonnen	Acting Director- West Addis District	Appointed on 06-Jan- 2023
Tamiru Behaga Dikte	Deputy Director- Corporate Customer & Relationship	Appointed on 01-Jan-2022
Abey Berhane Embeza	Deputy Director- Credit Analysis and Appraisal	Appointed on 01-Jan-2022
Kibele Gerawork Jembere	Deputy Director- Customer Accounts and Resource Mobilization	Appointed on 01-July-2022
Solomon Ayalew Legesse	Deputy Director- Facilities Management	Appointed on 28-Jan- 2021
Fikadu Assefa Kebede	Deputy Director- Finance & Accounts	Appointed on 01-July 2022

Independent Auditor

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

Corporate office

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



Berhan Bank S.C
For the period ended 30 June 2023
Directors, professional advisers and registered office
Company secretary

TK International building
China - Africa Square
P.O Box 387 - 1110

Addis Ababa, Ethiopia
www.berhanbanksc.com

Principal bankers

Bank 1:	COMMERZ BANK AG.60261 FRANKFURT AM MAIN,GERMANY Swift code: COBADEFF
Bank 2:	ECO BANK, PARIS EBI SA GROUPE Swift code: ECOCFRPP
Bank 3:	ECOBANK KENYA LIMITED, NAIROBI KENYA, Swift code: ECOCKENAXXX
Bank 4:	ODDO BHF AKTIENGESELLSCHAFT, FRANKFURT AM MAIN DE, Swift code: BHFBDEFF500
Bank 5:	CAC INTERNATIONAL BANK, DJIBOUTI DJ, Swift code: CACDDJJDXXX
Bank 6:	EXIM BANK(DJIBOUTI) S.A, DJIBOUTI DJ, Swift code: EXTNDJJDXXX
Bank 7:	BANK OF BEIRUT (UK) LTD-LONDON, Swift Code: BRBAGB2L
Bank 8:	AKTIF BANK; ISTANBUL, TURKEY; Swift code: CAYTTRIS
Bank 9:	KCB BANK KENYA LIMITED; Swift code - KCBLKENXXXX
Bank 10:	AFRICAN EXPORT IMPORT BANK,CAIRO,EGYPT;SWIFT CODE AFXMEGCA



Berhan Bank S.C
Report of the Directors
For the period ended 30 June 2023

The directors submit their report together with the financial statements for the period ended 30-June 2023, to the members of Berhan Bank S.C ("Berhan" or the "Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation and address

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

Principal activities

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

Results and dividends

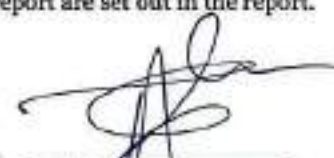
The Bank's results for the year ended 30 June 2023 are set out on the Statement of profit or loss and other comprehensive income. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2023	30 June 2022
	Birr'000	Birr'000
Revenue	3,140,055	2,601,549
Profit / (loss) before tax	605,235	583,436
Tax (charge) / credit	(96,609)	(104,914)
Profit / (loss) for the year	508,626	478,522
Other comprehensive income / (loss) net of taxes	144,888	50,261
Total comprehensive income / (loss) for the year	653,514	528,784

Directors

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


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


Ato Girum Tsegaye
President





Berhan Bank S.C
Statement of Directors' Responsibilities
For the period ended 30 June 2023

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

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards and in the manner required by the Commercial Code of the Federal Democratic Republic of Ethiopia 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 of the aforementioned Proclamation.

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

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

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

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

Signed on behalf of the Directors by:


Ato Gumachew Kussie
Chairman of the Board of Directors
16-Oct-23




Ato Girum Tsegaye
President
16-Oct-23



Kokeb & Melkamu Audit Partnership

Chartered Certified Accountants (UK)

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

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Berhan Bank (S.C.) as at June 30, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Bank, which comprise the Statement of Financial Position as at June 30, 2023, and statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

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

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

Key Audit Matters

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

Responsibilities of and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards and the Banking Business Proclamation No. 592/2008, Banking (Amendment) Proclamation 1159/2019, and directives and circulars issued by the National Bank of Ethiopia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, whether the financial statements are properly prepared in accordance with IFRS, the relevant provisions of the Commercial Code of Ethiopia 2021, the Banking Business Proclamation No. 592/2008, and the Banking (Amendment) Proclamation 1159/2019, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, and not a guarantee that an audit conducted in accordance with ISA(s) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material



if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosure made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that immaterial uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

We have communicated with management of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identified during our audit.

Report on other Legal and Regulatory Requirements

We have no comment to make on the report of your Board of Directors so far as it relates to the financial statements and pursuant to Article 349 (1, 2 & 3) of the Commercial Code of Ethiopia 2021, and recommend approval of the financial statements.

The Bank's board of directors, after deducting tax, legal reserve, and other deductions, recommended to the General Assembly of Shareholders that birr 196,393,661.20 to be distributed as dividend payments. As proposed dividends are subject to approval by the shareholders, we have no reservation on the proposal.

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



Kokeb & Melkamu Audit Partnership- Chartered Certified Accountants (UK)
Tel +251-11-616-69-56, Mobile Tel.251-91-120-37-78/51-61-46
Fax 251-11-552-26-88
E-mail: kokmelk@ethionet.et
P.O Box 33645



Berhan Bank S.C
Statement of Profit or Loss and Other Comprehensive Income
For the period ended 30 June 2023

	Notes	30-Jun-23 Birr'000	30-Jun-22 Birr'000
Interest income	9	4,391,533	3,180,383
Interest expense	10	(1,603,668)	(1,245,086)
Net Interest Income		2,787,865	1,935,297
Fees and commission income	11	512,015	566,680
Fees and commission expense	11	(76,842)	(20,656)
Net Fee and Commission Income		435,173	546,014
Other operating income	12	228,166	457,207
Total Operating Income		3,451,204	2,938,518
Loan Impairment Charge	13	(207,763)	(336,962)
Impairment Loss on other Financial Assets	13	(103,386)	(7)
Net Operating Income		3,140,055	2,601,549
Personnel expenses	14	(1,616,270)	(1,219,778)
Depreciation of property and equipment	23	(367,461)	(276,307)
Amortization of intangible assets	22	(3,773)	(3,785)
Other operating expenses	15	(547,315)	(518,243)
Total Operating Expenses		(2,534,820)	(2,018,113)
Profit Before Tax		605,235	583,436
Income tax expense	16	(96,609)	(104,914)
Profit for the Period		508,626	478,522
Other Comprehensive Income (OCI) Net of Income Tax			
Items that will not be reclassified to profit or loss:			
Remeasurements of Defined Benefit Liability/Asset-Net of Tax	28	(27,282)	(15,976)
Movement in fair value reserve (FVOCI equity instruments)-Net of Tax	28	172,170	66,238
Total Comprehensive Income for the Year, Net of Tax		653,514	528,784
Profit Attributable to Equity Holders		508,626	478,522
Earnings per share of Birr 1,000			
Basic Earnings Per Share	30	156.18	155.92

The notes are an integral part of these financial statements.

Berhan Bank S.C
Statement of Financial Position
For the period ended 30 June 2023

	Notes	30-Jun-23 Birr'000	30-Jun-22 Birr'000
ASSETS			
Cash and Balances with Banks	17	3,732,724	3,143,439
Due from Banks & Other Financial Institutions	17	3,719,919	869,293
Loans and Advances to Customers	18	27,346,058	20,944,464
Equity Investments	19	306,614	124,763
Bonds and Bills	19	3,833,003	3,299,928
Other Assets	20	1,253,266	930,320
Inventory	20	78,179	42,393
Non-Current Assets Held for Sale	20	58,041	58,141
Intangible Assets	22	8,835	12,609
Property and Equipment	23	2,297,882	1,803,626
Restricted Fund Balance	17	2,410,700	1,835,700
Total Assets		45,045,221	33,064,676
LIABILITIES			
Due to Banks & Other Institutions	24	3,518,408	345,156
Deposits from Customers	24	33,782,294	26,027,275
Current Tax Liabilities	16	79,077	94,538
Margins Held on Letters of Credit	24	365,273	454,304
Borrowings	24	559,028	-
Other Liabilities	24	1,509,576	1,484,517
Provisions	24	65,052	102,305
Retirement Benefit Obligations	24	101,795	74,737
Deferred Tax Liabilities	16	35,275	17,857
Total Liabilities		40,015,777	28,600,689
EQUITY			
Share Capital	25	3,350,433	3,159,025
Share Premium	25	15,847	13,632
Retained Earnings	26	196,394	235,631
Legal Reserve	27	856,684	729,527
Other Reserve	28	206,983	71,802
Regulatory Risk Reserve	29	403,104	254,371
Total Equity		5,029,444	4,463,987
Total Liabilities and Equity		45,045,221	33,064,676

The financial statements were approved and authorized for issue by the board of directors on 16-Oct-2023 and were signed on its behalf by:





Abi Gumachew Kussie
 Chairman of the Board of Directors

Ato Guram Tsegaye
 President

Berhan Bank S.C
Statement of Changes in Equity
For the period ended 30 June 2023

Notes	Share capital Birr'000	Share Premium Birr'000	Retained Earnings Birr'000	Regulatory Risk reserve Birr'000	Other Reserves Birr'000	Legal Reserve Birr'000	Total Birr'000
As at 01 July 2021	2,906,029	1,377	87,276	37,333	83,231	609,896	3,747,164
Profit for the Period	26	-	478,522	-	-	-	478,522
Director's Share of Profit	26	-	(1,588)	-	-	-	-
Other Comprehensive Income:							
Re-measurement Gains on Defined Benefit Plans	28	-	-	-	(2,571)	-	(2,571)
Movement in fair value reserve-equity instruments	28	-	-	-	64,771	-	64,771
Total Comprehensive Income for the Period	-	-	476,934	-	62,200	-	539,134
Transaction with owners in their capacity as owners :							
Contribution of equity net of transaction costs	25	252,996	12,255	-	-	-	265,251
Dividend provided for / paid	26	-	(87,563)	-	-	-	(87,563)
Transfer to legal reserve	27	-	(119,631)	-	-	119,631	-
Transfer to Regulatory Risk reserve	29	-	(121,674)	121,674	-	-	-
Transfer from Regulatory Risk reserve	29	-	-	-	-	-	-
Total	252,996	12,255	148,068	121,674	62,200	119,631	716,823
As at 30 June 2022	3,159,025	13,632	235,343	179,029	147,431	729,527	4,463,987
As at 01 July 2022	3,159,025	13,632	235,343	179,029	147,431	729,527	4,463,987
Profit for the Period	25	-	508,626	-	-	-	508,626
Director's Share of Profit	26	-	(1,425)	-	-	-	-
Other Comprehensive Income:							
Re-measurement Gains on Defined Benefit Plans	28	-	-	-	(16,151)	-	(16,151)
Movement in fair value reserve-equity instruments	28	-	-	-	151,332	-	151,332
Total Comprehensive Income for the Period	-	-	507,201	-	135,181	-	642,382
Transaction with owners in their capacity as owners :							
Contribution of equity net of transaction costs	25	191,408	2,215	-	-	-	193,623
Dividend provided for / paid	26	-	(235,631)	-	-	-	(235,631)
Transfer to legal reserve	26	-	(127,157)	-	-	127,157	-
Transfer to Regulatory Risk reserve	29	-	(148,733)	148,733	-	-	-
Transfer from Regulatory Risk reserve	29	-	-	-	-	-	-
Period Period Tax	-	-	(34,918)	-	-	-	(34,918)
Total	191,408	2,215	(39,237)	148,733	135,181	127,157	563,457
As at 30 June 2023	3,350,433	15,847	196,106	327,762	282,612	856,684	5,029,444

Berhan Bank S.C
Statement of Cash Flows
For the period ended 30 June 2023

		30 June 2023	30 June 2022
	Notes	Birr'000	Birr'000
Cash flows from operating activities			
Profit before tax		605,235	583,436
Adjustment for:			
Loan impairment charges	13	207,763	336,962
Impairment losses on other assets	15	103,386	7
Amortisation of intangible assets	22	3,773	3,785
Depreciation and impairment of property, plant and equipment	23	367,536	276,551
Impairment Loss(Gain) Asset Held for Sale	15	100	-
Allowance for Inventory Write-Down	15	15	53
Gain on Disposal of Property Plant And Equipment(net)		(2)	(287)
Gain from reversal of impairment allowance		(157)	(112,892)
Interest Expense on Lease Liability	10	39,958	33,727
Payment of Severance Benefit		(17,975)	(3,560)
Gain On Lease Modification		(42)	-
Cash Flow From Operation before Changes in Working Capital		1,309,591	1,117,782
Decrease (Increase) in Loans & Advances excluding provision	18	(6,714,520)	(4,354,497)
Decrease (Increase) in Non current asset held for sale	20	-	(38,500)
Decrease (Increase) in Other Assets	20	(321,089)	(189,199)
Decrease (Increase) in Restricted Fund Balances	17	(575,000)	(743,700)
Increase (Decrease) in Deposits	24	7,755,019	4,320,049
Increase (Decrease) in Margin Held Account	24	(89,031)	(11,235)
Increase (Decrease) in Other Liabilities	24	47,447	817,153
Decrease (Increase) Inventory	20	(35,800)	(7,777)
Decrease (Increase) Due from Banks & Other Financial Institutions	17	(2,850,626)	(785,874)
Increase (Decrease) in Provision	22	(37,253)	21,613
Decrease (Increase) Due to Banks & Other Institutions	24	3,173,252	303,890
Increase (Decrease) Retirement benefit obligations-Charge for the year	24	28,870	17,915
Cash Generated From Operation			
Withholding Tax Paid		(115)	(130)
Profit tax Paid	16	(94,538)	(127,952)
Prior Period Tax		(34,918)	-
Net Cash flow from Operating Activities		1,561,290	339,538
Cash Flow From Investing Activities			
Purchase of Property and Equipment	23	(861,694)	(823,822)
Purchase of Intangible Assets	22	-	(4,365)
Investment in NBE Bills	19	(533,034)	491,301
Investment in Shares	19	(30,519)	(3,808)
Proceeds from sale of property and equipment	23	44	1,053
Net Cash flow from Investing Activities		(1,425,203)	(330,642)
Cash Flow From Financing Activities			
Ordinary Shares Issued	25	191,408	252,996
Share Premium Received	25	2,215	12,255
Dividends paid	26	(235,631)	(87,563)
Increase (Decrease) Borrowings	24b	559,028	-
Principal Lease Payment	34	(62,369)	(49,955)
Director's Share of Profit		(1,425)	(1,588)
Net Cash flow from Financing Activities		453,226	126,146
Changes in Cash and Cash Equivalents		589,313	135,042
Cash and Cash Equivalent at the Beginning of the Year		3,126,500	3,097,458
Cash Balance at end of the year		3,715,813	3,232,500



1 Reporting Entity

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

Bole Dildiyie TK International Building

P.O.Box 387 Code 1110

Addis Ababa

Ethiopia

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

2 Basis of Accounting

These consolidated financial statements have been prepared in accordance with IFRS Standards. They were authorized for issue by the Bank's Board of Directors on [16-Oct-2023].

Details of the Bank's accounting policies and including the changes thereto are included in the notes.

3 Functional and Presentation Currency

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

4 Significant accounting estimates and judgements

Judgements

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.

In determining the carrying amounts of certain assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- > Credit impairment
- > Financial instruments measured at fair value
- > Provisions for liabilities and charges



Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are included:

- Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating FLI into the measurement of ECL and selection and approval of models used to measure ECL.
- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

Assumptions and Estimation Uncertainties

In determining the carrying amounts of certain assets and liabilities, the bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2023 are included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Determination of the fair value of financial instruments with significant unobservable inputs.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

5 Accounting Policies

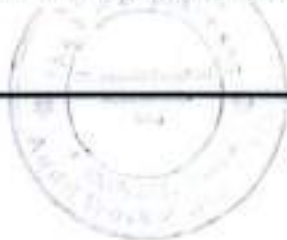
Changes in significant accounting policies

i) Inventory (IAS 2) - a voluntary change by the bank

The bank voluntarily changed its inventory measurement from FIFO to weighted average method starting from 01 July 2022. The management of the bank believes that using weighted average method provides reliable and more relevant information and suitable for the bank inventory management system. The bank select prospective application because it is impracticable for prior periods due to bulk nature of transactions and they do not have impact of prior period's earnings.

ii) Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment— Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.



New accounting standards in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods in 2023 and beyond and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these consolidated financial statements.

The bank shall apply the amendments when it is due. However, the new and amended standards are not expected to have a significant impact on the Bank's consolidated financial statements.

Title	Description	Effective Date
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: • what is meant by a right to defer settlement. • That a right to defer must exist at the end of the /reporting period. • That classification is unaffected by the likelihood that an entity will exercise its deferral right. • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what 'material accounting policy information' is and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments to IAS 12 Income Taxes require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.	The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented.. Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

Definition of Accounting Estimates – Amendments to IAS 8	In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IFRS 17 – Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

5.1 Going Concern

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

5.2 Summary of significant accounting policies

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

5.3 Basis of preparation

The financial statements for the period ended 30 June 2023 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

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

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

-Fair value through other comprehensive income and fair value through profit and loss, financial assets and financial liabilities and investment properties measured at fair value;

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

-The liability for defined benefit obligations recognized at the present value of the defined benefit obligation less the fair value of the plan assets and plan assets measured at fair value



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

5.4 Foreign Currency Translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank's functional currency are recognized in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. Mid exchange rate (which is the average of the selling exchange rate and the buying exchange rate) is used by the Bank in connection with the revaluation of foreign currency items.

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

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

5.5 Net interest income

Interest income for financial assets held at either fair value through other comprehensive income or amortized cost, and interest expense on all financial liabilities held at amortized cost is recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimates of cash flows have been revised, the carrying amount of the financial



asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognized as interest income or expense in the period in which the revision is made.

5.6 Recognition of income and expenses

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

The Bank, earns income from interest on loans and advances, investment in shares, deposit with other banks, purchase of Bills and Bonds, letter of credits, letter of guarantees and other operational services.

5.7 Interest and Similar Income and Expense

Calculation of interest income and expense

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

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.

Net interest income

In millions of ETB	Jun-23	Jun-22
Interest income	4,391,533	3,180,383
Interest expense	(1,603,668)	(1,245,086)
Net interest income	2,787,865	1,935,297

Effective interest rate

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

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

Amortized cost and gross carrying amount

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

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

Presentation

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

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

5.8 Fees and Commission

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

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

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

5.9 Dividend Income

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

5.10 Foreign Exchange Revaluation Gains or Losses

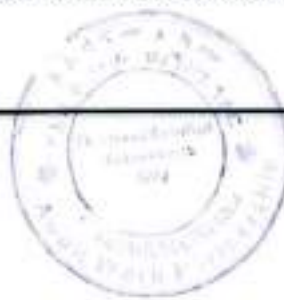
These are gains and losses arising on settlement and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency's exchange rate at the reporting date. This amount is recognized in the income statement.

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

5.11 Financial Instruments

a) Classification and measurement

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



The Bank classifies its financial assets into the following measurement categories: amortized cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortized cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

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

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

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

Classification of Financial Assets and Financial Liabilities

i) Financial assets

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ('hold to collect') are recorded at amortized cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ('hold to collect and sell') are classified as held at FVOCI.

Both hold to collect business and a hold to collect and sell business models involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterized by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The 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.

Under IFRS 9 fair value changes are generally presented as follows: – the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

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

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

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

No impairment loss is recognized on equity investments.

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 recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

b) Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at the date. The fair value of a liability includes the risk that the bank will not be able to honor its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Bank establishes fair value by using valuation techniques.

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



i) Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognized on the trade-date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortized cost are recognized on the settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognized at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

ii) Subsequent measurement

Financial assets and financial liabilities held at amortized cost are subsequently carried at amortized cost using the effective interest method.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealized gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

5.12 Derecognition of Financial Instruments

i) Derecognition of Financial Assets

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

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

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

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

ii) Derecognition of Financial Liabilities

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



Modifications of financial assets and financial liabilities

i) Financial assets

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

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

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

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

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

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

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

ii) Financial liabilities

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

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

5.13 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.

5.14 Renegotiated Loans

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

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

5.15 Collateral Valuation

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

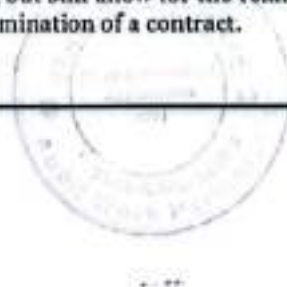
To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models.

5.16 Collateral Repossessed

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

5.17 Offsetting Financial Instruments

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



Berhan Bank S.C
Financial Statements
For the period ended 30 June 2023
Notes to the financial statements

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

5.18 Cash and Cash Equivalents

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

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

5.19 Property and Equipment

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

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

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

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

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

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

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

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

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.

Development Cost

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

5.20 Intangible Assets

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

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

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

Description	Years	Residual value
Software	6	Nil

5.21 Investment Property

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

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

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections.

Valuations are performed as of the reporting date by valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

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

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

5.22 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.

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

- a) Their carrying amounts will be recovered principally through sale
- b) They are available for immediate sale in their present condition, and
- c) Their sale is highly probable

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

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



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

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

5.23 Impairment of Non-Financial Assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

5.24 Other Assets

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

(a) Prepayment

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

(b) Other Receivables

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

(c) Prepaid Staff Benefits

The Bank gives loans to its staff members at below market rates of interest. Under IFRS 9, such loans must be recognized at their fair value on the inception date. The fair value is determined on inception date as the present value of all the future cash receipts (instalments) from the staff members using the prevailing

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market rate of interest as the discounting factor. The market rate was determined by reference to what the staff members would have been charged to access a similar loan facility from the financial market (similar in terms of currency, term, type of interest rate and other factors). The market rate was set by the Ethiopian Bankers Association. Accordingly for the year 2022/23, interest rate of 12% was used for mortgage loans, and for other loan type's interest rate of 11.45%.

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

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

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

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

5.25 Fair Value Measurement

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

-> In the principal market for the asset or liability, or

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

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization



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(based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

5.26 Employee Benefits

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

(a) Defined Contribution Plan

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

The Bank operates two defined contribution plans;

- i) Pension scheme in line with the provisions of Ethiopian pension of private organization employee's proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;
- ii) Provident fund contribution, funding under this scheme is 1% by the Bank;

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

(b) Defined Benefit Plan

The Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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

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

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

(c) Other Long-term Employee Benefits

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

(d) Termination Benefits

Termination benefits are payable to employees when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(e) Short-term Employee Benefits

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

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

(f) Defined Benefits Liabilities

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

Accounting for defined benefit plans involves the following steps:

-> Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit.

-> Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost because they may be settled many years after the employees render the related service.

-> Determining amounts to be recognized in profit or loss: current service cost any past service cost and gain or loss on settlement.

-> Recognize the net defined benefit liability (asset) in the statement of financial position. This means that Berhan bank's severance pay to its employees shall be recognized earlier than the actual payment. The benefits valued are the statutory severance benefits in Ethiopia, which provides a promised lump sum as a multiple of final weeks' average daily wages for each year of service to employees on leaving the bank after a minimum of five years' service and a retirement gratuity which pays a fixed multiple of salary on retirement (three months' salary for managerial staff and two months' salary for non-managerial staff).

5.27 Provisions

Provisions are recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects

some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.

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

5.28 Structure of Share Capital

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

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

Outstanding Shares = are those issued shares.

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

5.29 Leases

The Bank assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Bank is a lessee and the lease is deemed in scope, it recognizes a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable in the economic environment of the lease. The liability is recognized in 'Other liabilities'. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognized in 'Property and equipment'. The lease term includes any extension options contained in the contract that the Bank is reasonably certain it will exercise.

The Bank subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognized in 'Depreciation and amortization', and interest on the lease liability is recognized in 'Interest expense'.

The judgements in determining lease balances are the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. On initial recognition, the Bank considers a range of characteristics such as premises function, regional trends and the term remaining on the lease to determine whether it is reasonably certain that a contractual right to extend a lease will be exercised.

IFRS 16 requires the lease term used to measure lease liabilities to include "reasonably certain" renewal options, whereas previously IAS 17 required disclosure of "non-cancellable" lease commitments. The consequences of this are:

-> Under IFRS 16, for some leases the Bank includes lease renewal options which it is reasonably certain will be exercised in the measurement of lease liabilities.

-> In certain conditions, the Bank has a unilateral right to cancel building leases with notice of fewer than three months without incurring a significant financial penalty. Under IFRS 16 the Bank would only exclude these cash flows from lease measurement if it was reasonably certain the termination clause would be exercised.

Existing lease liabilities may change in future periods due to changes in assumptions or decisions to exercise lease renewal or termination options, changes in payments due to renegotiations of market rental rates. In general the Remeasurements of a lease liability under these circumstances leads to an equal change to the right-of-use asset balance, with no immediate effect on the income statement.

5.30 Income Taxation

(a) Current Income Tax

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

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

(b) Deferred Tax

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

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

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

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

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

5.31 Inventories

IAS 2 provides guidance for determining the cost of inventories and the subsequent recognition of the cost as an expense, including any write down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories includes all costs of purchase, costs of conversion (direct labor and production overhead) and other costs incurred in bringing the inventories to their present location and condition.

Inventories are assets:

- a) Held for sale in the ordinary course of business;
- b) In the process of production for such sale; or
- c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

6 Credit Impairment

The Banks's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements in determining expected credit loss include:

- > The Bank's criteria for assessing if there has been a significant increase in credit risk; and
- > Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources, including external market information.

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

- i) Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding,
- ii) Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition,
- iii) Determining methodology for incorporating forward-looking information (FLI) into measurement of Expected Credit Loss (ECL) and,
- iv) Selection and approval of models used to measure Expected Credit Loss (ECL)

Expected Credit Losses (ECL)

Expected credit losses are determined for all financial debt instruments that are classified at amortized cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive over the contractual life of the instrument.

a) Impairment

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

- > Financial assets that are debt instruments;
- > Lease receivables;
- > Financial guarantee contracts issued; and
- > Letters of credit

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

- > Debt investment securities that are determined to have low credit risk at the reporting date; and
- > Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

b) Measurement of ECL

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

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

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information, including that which is forward-looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices, among others.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Bank is exposed to credit risk. However, for certain revolving credit facilities, which include overdrafts, the Bank's exposure to credit risk is not limited to the contractual period. For these instruments, the Bank estimates an appropriate life based on the period that the Bank is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement.

The estimate of expected cash shortfalls on a collateralized financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

c) Recognition of ECL

12 months expected credit losses (stage 1)

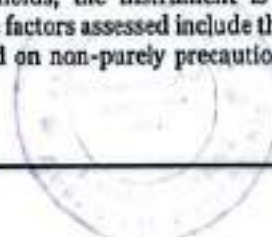
Expected credit losses are recognized at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognized for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent that these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk. Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).



Credit-impaired (or defaulted) exposures (stage 3)

Financial assets that are credit-impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

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

- Significant financial difficulty of the issuer or borrower
- Breach of contract such as default or a past due event
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions.
- Pending or actual bankruptcy or other financial reorganization to avoid or delay discharge of the borrower's obligation/s
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses

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

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

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

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

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

e) 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.

7 Contingent liabilities and commitments

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognized because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognized but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Where the Bank undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Bank's Transaction Banking business, for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments are where the Bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees, whether cancellable or not, or letters of credit, and the Bank has not made payments at the balance sheet date; those instruments are included in these financial statement as commitments. Commitments and contingent liabilities are generally considered on demand as the Bank may have to honor them, or client may draw down at any time.

Capital commitments are contractual commitments the Bank has entered into to purchase non-financial assets.

8 Financial Risk Management

8.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Risk Management provides a comprehensive and dynamic framework for identifying, measuring, monitoring and managing financial and non-financial risks. When the quantitative data disclosed at the reporting date is not representative of the Bank's exposure to risk during the period, further information that is representative must be assisted



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in qualitative disclosures. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.

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

8.1.1 Risk Management Structure

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

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

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

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

1. Credit Risk

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

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

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

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

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



Credit quality analysis

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

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

<i>In Birr'000</i>	2023				2022
Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1 – Pass	26,018,430	-	-	26,018,430	19,997,840
Stage 2 – Special mention	-	712,583	-	712,583	302,179
Stage 3 - Non performing	-	-	2,160,032	2,160,032	1,876,506
Total gross exposure	26,018,430	712,583	2,160,032	28,891,045	22,176,525
Loss allowance	(194,483)	(4,364)	(864,911)	(1,063,757)	(855,994)
Interest in suspense	-	-	(69,921)	(69,921)	(37,949)
Staff Loan Market Interest Adjustment	(411,309)	-	-	(411,309)	(338,117)
Net carrying amount	25,412,638	708,219	1,225,200	27,346,057	20,944,465

<i>In Birr'000</i>	2023			
Other financial assets (debt instruments)		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	1,964,512	(89)	1,964,423
Investment securities (debt instruments)	12 Month ECL	3,833,127	(124)	3,833,003
Other receivables and financial assets	Lifetime ECL	945,735	(217,235)	728,500
Totals		6,743,374	(217,448)	6,525,926

<i>In Birr'000</i>	2022				2021
Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1 – Pass	19,997,840	-	-	19,997,840	15,849,558
Stage 2 – Special mention	-	302,179	-	302,179	233,095
Stage 3 - Non performing	-	-	1,876,506	1,876,506	1,738,980
Total gross exposure	19,997,840	302,179	1,876,506	22,176,525	17,821,633
Loss allowance	(183,882)	(1,765)	(670,347)	(855,994)	(519,032)
Interest in suspense	-	-	(37,949)	(37,949)	(16,703)
Staff Loan Market Interest Adjustment	(338,117)	-	-	(338,117)	(225,245)
Net carrying amount	19,475,841	300,413	1,168,210	20,944,465	17,060,653

In Birr'000	2022			
Other financial assets (debt instruments)		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	1,493,029	(62)	1,492,967
Investment securities (debt instruments)	12 Month ECL	3,300,093	(165)	3,299,928
Other receivables and financial assets	Lifetime ECL	621,302	(113,928)	507,374
Totals		5,414,424	(114,155)	5,300,269

ECL Movement

	Stage 1	Stage 2	Stage 3	Totals
ECL at 1 July 2022	183,882	1,765	670,347	855,994
Transfer to Stage 1	28,431	(950)	(27,481)	-
Transfer to Stage 2	(495)	784	(290)	-
Transfer to Stage 3	(8,902)	(55)	8,957	-
Net remeasurement	(42,136)	92	90,254	48,210
ECL on new loans	171,622	3,364	119,647	294,633
ECL on derecognized loans	(137,918)	(638)	3,476	(135,080)
ECL at 30 June 2023	194,483	4,364	864,911	1,063,757

	Stage 1	Stage 2	Stage 3	Totals
ECL at 1 July 2021	83,329	3,123	432,580	519,032
Transfer to Stage 1	4,834	(1,029)	(3,805)	-
Transfer to Stage 2	(324)	335	(11)	-
Transfer to Stage 3	(1,235)	(871)	2,106	-
Net Remeasurement	(49,268)	(48)	342,491	293,175
ECL on new loans	161,533	900	590	163,023
ECL on derecognized loans	(14,988)	(644)	(103,604)	(119,236)
ECL at 30 June 2022	183,882	1,765	670,347	855,994

Management of Credit Risk

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

- > Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- > Establishing the authorization structure for the approval and renewal of credit facilities.
- > Reviewing and assessing credit risk: assesses all credit exposures, before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- > Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures)



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-> Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:

- Initial approval, regular validation and back-testing of the models used;
- Determining and monitoring significant increase in credit risk; and
- Incorporation of forward-looking information (FLI).

-> Regular reports on the credit quality of portfolios are provided, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.

-> Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Significant increase in credit risk

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

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

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

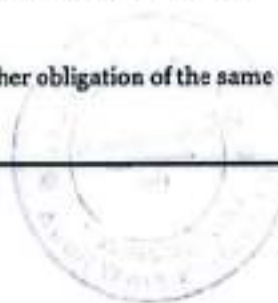
Definition of default

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

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

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

- > Qualitative: e.g. breaches of covenant;
- > Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and



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

Modified financial assets

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

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

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

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

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

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

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

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 by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyze 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.

Measurement of ECL

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

-> Probability of Default (PD);

-> Loss Given Default (LGD); and

-> Exposure at Default (EAD).

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

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

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

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

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

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

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

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

-> Instrument type;

-> Credit risk grading;

-> Collateral type;

-> LTV ratio for retail mortgages (the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral);

-> Date of initial recognition;

-> Remaining term to maturity; and

-> Industry

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

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

Loans with renegotiated terms

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

Loans that were past due but not impaired

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

Credit Risk Measurement, Limits and Mitigation Policies

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

The Risk Management Committee,

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

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

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

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

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

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

8.1.2 Risk Measurement and Reporting Systems

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

8.1.3 Risk Mitigation

Risk controls and mitigates, identified and approved for the Bank, are documented for existing and new processes and systems. The adequacy of these mitigates 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.

8.2 Financial Instruments by Category

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

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

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

30 June 2023	Notes	FVOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and Balances with Banks	17a	-	3,732,724	3,732,724
Loans and Advances to Customers	18	-	27,346,058	27,346,058
Due from Banks & Other Financial Institutions	19b	-	3,719,919	3,719,919
Equity Investments	19a	306,614	-	306,614
Bonds and Bills	20	-	3,833,003	3,833,003
Other Assets	20	-	1,253,266	1,253,266
Total Financial Assets		306,614	39,884,970	40,191,584



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	Notes	FVOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
30 June 2022				
Cash and Balances with Banks	17a	-	3,143,439	3,143,439
Loans and Advances to Customers	18	-	20,944,465	20,944,465
Due from Banks & Other Financial Institutions	19b	-	869,293	869,293
Equity Investments	19a	124,763	-	124,763
Bonds and Bills	20	-	3,299,928	3,299,928
Other Assets	20	-	930,320	930,320
Total Financial Assets		124,763	29,187,445	29,312,207

8.3 Credit Risk

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

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

8.3.1 Management of Credit Risk

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

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

(a) Probability of Default (PD)

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

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

An analysis will then be done to estimate the movement of loan amounts from one bucket to the next between two subsequent time periods. This results in a matrix that indicates the proportionate movement

of loans across the buckets. This is done considering the loan values. An average of all transitions obtained over the 60 month period is then obtained to form the general transition matrix to be applied.

The Bank uses computation of PD by amount.

(b) Loss Given Default (LGD)

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

(c) Exposure at Default (EAD)

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

8.3.2 Impairment Assessment

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

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

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

No impairment loss shall be recognized on equity investments.

8.3.3 Credit Related Commitment Risks

The Bank holds collateral against loans and advances to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally updated when a loan is individually assessed as impaired.

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

The Bank's maximum exposure to credit risk at 30 June 2023 and 30 June 2022 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2023 Birr'000	30 June 2022 Birr'000
Cash and Balances with Banks	3,732,724	3,143,439
Loans and Advances to Customers	27,346,058	20,944,464
Equity Investments	306,614	124,763
Bonds and Bills	3,833,003	3,299,928
Other Assets	1,253,266	930,320
	36,471,665	28,442,914
Credit Risk Exposures Relating to Off balance Sheets :		
Loan commitments	1,642,612	772,229
Guarantees issued and outstanding	3,068,344	1,673,454
Letter of credit and other credit related obligations	46,749	272,506
	4,757,705	2,718,188
Total maximum exposure	41,229,369	31,161,102

	30 June 2023 Birr'000	30 June 2022 Birr'000
Pass	26,018,430	19,997,840
Special mention	712,583	302,179
Substandard	728,197	397,520
Doubtful	504,923	930,967
Loss	926,911	548,019
	28,891,045	22,176,525

Gross loans and advances to customers per sector is analyzed as follows:

	30 June 2023 Birr'000	30 June 2022 Birr'000
Agriculture	102,126	90,036
Transport	426,761	465,259
Hotel and Tourism	469,447	387,993
Health and Education Service	170,172	-
Import	2,983,816	2,159,211
Export	2,340,558	1,392,447
Manufacturing	3,435,175	3,059,010
Domestic trade and services	8,288,580	6,456,607
Building and construction	5,836,210	4,580,621
Personal loan	2,601,821	1,926,274
Staff loan	2,236,378	1,659,066
	28,891,045	22,176,525

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

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

8.3.5 Credit Quality Analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents and short-term investments that were neither past due nor impaired as at 30 June 2023 and 30 June 2022 have been classified as non-rated as there are no credit rating agencies in Ethiopia.

(b) Credit quality of loans and advances

The nonperforming (NPL) ratio of the bank is 7% as of 30 June 2023 which is above the National bank requirement of 5% but reduced from 8% as of 30 June 2022 and the management is exerting an effort to reduce the gap and increase the credit quality of Loans.

30 June 2023	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	Total Birr'000
Agriculture	89,258	5,898	6,970	102,126
Transport	346,588	1,475	78,698	426,761
Hotel and tourism	452,578	2,283	14,587	469,447
Health and Education Service	163,506	4,494	2,173	170,172
Import	2,700,285	28,264	255,266	2,983,816
Export	2,242,888	2,669	95,001	2,340,558
Manufacturing	3,381,721	27,938	25,515	3,435,175
Domestic trade and services	7,379,905	478,891	429,784	8,288,580
Building and construction	4,586,515	19,801	1,229,894	5,836,210
Personal loans	2,476,484	109,798	15,538	2,601,821
Staff loan	2,198,701	31,072	6,605	2,236,378
Gross	26,018,430	712,583	2,160,032	28,891,045
Less:				
Impairment allowance (note 18a)	(194,483)	(4,364)	(864,911)	(1,063,757)
Interest in suspense	-	-	(69,921)	(69,921)
Staff Loan Market Interest Adjustment	(411,309)	-	-	(411,309)
Net Loans and Advance	25,412,638	708,219	1,225,200	27,346,057

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30 June 2022	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	Total Birr'000
Agriculture	79,167	5,290	5,579	90,036
Transport	426,283	5,021	33,955	465,259
Hotel and tourism	328,082	14,633	45,278	387,993
Import	2,092,774	1,263	65,175	2,159,211
Export	1,305,905	1,639	84,903	1,392,447
Manufacturing	2,955,143	16,748	87,120	3,059,010
Domestic trade and services	5,783,746	197,726	475,136	6,456,607
Building and construction	3,521,330	5,888	1,053,403	4,580,621
Personal loans	1,865,731	47,259	13,284	1,926,274
Staff loan	1,639,679	6,713	12,674	1,659,066
Gross	19,997,840	302,179	1,876,506	22,176,525
Less:				
Impairment allowance (note 18a)	(183,882)	(1,765)	(670,347)	(855,994)
Interest in suspense	-	-	(37,949)	(37,949)
Staff Loan Market Interest Adjustment	(338,117)	-	-	(338,117)
Net Loans and Advance	19,475,841	300,413	1,168,210	20,944,465

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

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Neither past due nor impaired	26,018,430	19,997,840
Collective impairment	(194,483)	(183,882)
Loan and advances (net)	25,823,947	19,813,958

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Past due up to 30 days	712,583	302,179
Collective impairment	(4,364)	(1,765)
Loan and advances (net)	708,219	300,413



(iii) *Loans and advances - Impaired loans*

	30 June 2023 Birr'000	30 June 2022 Birr'000
Impaired loans	2,160,032	1,876,506
Individual impairment	(864,911)	(670,347)
Net Carrying Amount	1,295,121	1,206,159

(iv) *Allowance for loan impairment*

	30 June 2023 Birr'000	30 June 2022 Birr'000
IFRS Loan impairment charge	1,063,757	855,994
Total allowance for impairment	1,063,757	855,994

8.3.6 Statement of Prudential Adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the expected credit loss model required by IFRS 9. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

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

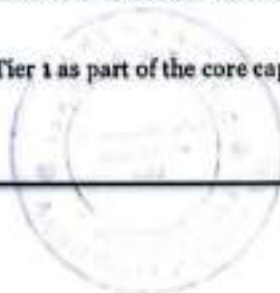
However, Banks would be required to comply with the following:

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

>If prudential provisions is greater than IFRS provisions; the excess provisions resulting should be transferred from Retained Earnings account to Regulatory Risk Reserve Account.

>If prudential provisions is less than IFRS provisions; the excess provision is charged to the statement of profit or loss. The cumulative balance in the regulatory risk reserve is thereafter reversed to the Retained Earnings account.

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



	30 June 2023 Birr'000	30 June 2022 Birr'000
Total impairment based on IFRS	1,063,757	855,994
Total impairment based on NBE Directives	(1,044,163)	(675,017)
Excess(Shortage) Prudential Adjustments	19,594	180,978

8.3.7 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2023 and 30 June 2022. The Bank concentrates all its financial assets in Ethiopia.

30 June 2023

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	-	-
Loans and advances	-	40,460	28,437,795	-
Investment securities	3,833,127	-	-	-
Investment in Equity	-	-	306,614	-
Loan commitments	-	-	1,642,612	-
	3,833,127	40,460	30,387,021	-

30 June 2022

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	-	-
Loans and advances	-	36,633	22,135,414	4,478
Investment securities	3,300,093	-	-	-
Investment in Equity	-	-	124,763	-
Loan commitments	-	-	772,229	-
	3,300,093	36,633	23,032,406	4,478



8.3.8 Nature of security in respect of loans and advances

30 June 2023	Building Birr'000	Building & Vehicle Birr'000	Share Certificate Birr'000	Vehicle Birr'000	Others Birr'000
Agriculture	74,331	6,229	-	14,370	4,520
Building, Construction & Real Estate	3,547,608	174,675	8,296	763,557	1,111,163
Domestic Trade and Services	341,526	-	2,939	43,913	-
Export	6,420,135	418,663	15,132	1,188,198	136,028
Health & Education	1,078,284	130,845	181,673	498,187	416,462
Hotel And Tourism	156,658	-	-	13,234	280
Import	419,933	15,029	-	29,341	-
Manufacturing	2,196,637	75,662	270,398	370,901	62,341
Personal	2,375,639	169,639	1,491	227,423	653,704
Transport & Communication	1,728,732	6,268	4,122	364,605	107,667
Other(Staff)	67,320	11,617	293	335,996	1,020
	1,552,423	2,166	-	164,194	516,789
	19,959,224	1,010,794	484,344	4,013,919	3,009,974

30 June 2022	Building Birr'000	Building & Vehicle Birr'000	Share Certificate Birr'000	Vehicle Birr'000	Others Birr'000
Agriculture	188,015	5,513	-	21,329	25,497
Building, Construction & Real Estate	5,845,783	193,117	19,851	1,194,481	907,925
Domestic Trade and Services	11,219,653	217,500	31,037	1,619,238	352,378
Export	620,884	141,504	29,840	84,909	350,841
Hotel And Tourism	753,732	25,217	-	70,420	-
Import	2,933,437	100,960	71,878	467,543	165,071
Manufacturing	3,724,032	123,310	74,513	495,418	1,118,380
Personal	2,501,642	4,434	11,696	486,861	4,906
Transport & Communication	204,921	13,297	905	753,583	14,665
Other(Staff)	1,258,544	-	-	168,851	-
	29,250,644	824,854	239,720	5,362,633	2,939,662

8.3.9 Collateral held and their financial effect

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

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

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

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

At 30 June 2023, the net carrying amount of credit-impaired loans and advances to customers amounted to ETB 2.1 billion and the value of identifiable collateral held against those loans and advances amounted to ETB 1.5 billion. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

8.4 Liquidity Risk

Liquidity risk is the risk that the Bank cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk management in the Bank is solely determined by Asset Liability Management Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

8.4.1 Management of Liquidity Risk

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

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

8.4.2 Maturity Analysis of Financial Liabilities

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



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30 June 2023	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000	Total Birr'000
Deposits from customers	3,040,406	675,646	1,013,469	1,351,292	27,701,481	33,782,294
Due to Banks & Other Institutions	3,518,408	-	-	-	-	3,518,408
Current tax liabilities	-	-	79,077	-	-	79,077
Margins held on letters of credit	-	365,273	-	-	-	365,273
Borrowings	-	559,028	-	-	-	559,028
Provisions	-	44,235	3,253	4,554	13,010	65,052
Retirement benefit obligations	509	1,018	1,527	2,036	96,705	101,795
Other liabilities	83,027	301,915	627,984	344,183	152,467	1,509,576
Deferred Tax Liabilities	-	-	-	-	35,275	35,275
Total financial liabilities	6,642,350	1,947,115	1,725,309	1,702,065	27,998,939	40,015,777

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	Total Birr'000
Deposits from customers	2,342,455	520,546	780,818	1,041,091	21,342,366	26,027,275
Due to Banks & Other Institutions	345,156	-	-	-	-	345,156
Current tax liabilities	-	-	94,538	-	-	94,538
Margins held on letters of credit	-	454,304	-	-	-	454,304
Provisions	-	69,567	5,115	7,161	20,461	102,305
Retirement benefit obligations	374	747	1,121	1,495	71,000	74,737
Other liabilities	81,648	296,903	617,559	338,470	149,936	1,484,517
Deferred Tax Liabilities	-	-	-	-	17,857	17,857
Total financial liabilities	2,769,633	1,342,068	1,499,152	1,388,217	21,601,620	28,600,689

8.5 Market Risk

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

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

8.5.1 Management of Market Risk

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

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(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 2023	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	895,854	-	2,836,870	3,732,724
Loans and advances	27,072,597	-	273,461	27,346,058
Investment securities	3,833,003	-	-	3,833,003
Total	31,801,454	-	3,110,331	34,911,785

30 June 2022	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	754,425	-	2,389,014	3,143,439
Loans and advances	20,735,019	-	209,445	20,944,464
Investment securities	3,299,928	-	-	3,299,928
Total	24,789,372	-	2,598,458	27,387,831

(ii) Foreign Exchange Risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at 30 June 2023 was Birr 219,505 million and 30 June 2022 Birr 67 million.

Foreign currency denominated balances

	30 June 2023 Birr'000	30 June 2022 Birr'000
Cash and bank balances	675,939	315,738
Deposits/Liabilities	456,434	382,970
	219,505	(67,232)



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Sensitivity analysis for foreign exchange risk

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

The sensitivity of the Bank's earnings to fluctuations in exchange rates is reflected by varying the exchange rates at 15% and 5% as shown below:

	30 June 2023 Birr'000	30 June 2022 Birr'000
USD cash at Foreign and Cash Balances	675,939	315,738
15% appreciation of Dollar	101,391	47,361
5% Depreciation of Dollar	(33,797)	(15,787)
	67,594	31,574

8.6 Capital Management

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

8.6.1 Capital Adequacy Ratio

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

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

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Capital		
Capital contribution	3,350,433	3,159,025
Share Premium	15,847	13,632
Legal reserve	855,684	729,527
Other Reserve	206,983	71,802
Regulatory Risk Reserve	403,104	254,371
	4,833,050	4,228,357
Risk weighted assets		
Risk weighted balance for on-balance sheet items	28,042,056	19,967,229
Credit equivalents for off-balance Sheet Items	2,772,076	1,635,766
Total risk weighted assets	30,814,131	21,602,995
Risk-weighted Capital Adequacy Ratio (CAR)	16%	20%
Minimum required capital	8%	8%
Excess	8%	12%

8.7 Fair Value of Financial Assets and Liabilities

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

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

8.7.1 Valuation Models

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

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

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

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

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

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

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

The following table summarizes the carrying amounts of financial assets and liabilities at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized.

30 June 2023	Gross Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	3,732,813	-	3,732,813	-	3,732,813
Loans and advances	27,827,288	-	27,827,288	-	27,827,288
Investment securities	3,893,784	-	-	3,893,784	3,893,784
Total	35,453,885	-	31,560,100.70	3,893,784.00	35,453,884.70

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Financial liabilities					
Deposits from customers	33,782,294	-	33,782,294	-	33,782,294
Other liabilities	1,509,576	-	1,509,576	-	1,509,576
Total	35,291,870	-	35,291,870	-	35,291,870

30 June 2022	Gross Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	3,143,501	-	3,143,501	-	3,143,501
Loans and advances	21,320,531	-	21,320,531	-	21,320,531
Investment securities	3,330,231	-	-	3,330,231	3,330,231
Total	27,794,263	-	24,464,031.74	3,330,231.00	27,794,262.74
Financial liabilities					
Deposits from customers	26,027,275	-	26,027,275	-	26,027,275
Other liabilities	1,484,517	-	1,484,517	-	1,484,517
Total	27,511,792	-	27,511,792	-	27,511,792

8.7.3 Transfers between the Fair Value Hierarchy Categories

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

8.8 Offsetting Financial Assets and Financial Liabilities

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



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	30 June 2023 Birr'000	30 June 2022 Birr'000
9 Interest Income		
Interest on loans and advances	4,037,666	2,897,134
Interest on investment securities	251,474	217,199
Interest on deposits due from banks	102,393	66,050
	4,391,533	3,180,383

	30 June 2023 Birr'000	30 June 2022 Birr'000
10 Interest Expense		
Interest on Demand deposits	(19,226)	(19,676)
Interest on Saving deposits	(1,073,164)	(936,777)
Interest on Time deposits	(333,279)	(201,570)
Interest on borrowings from domestic banks	(138,041)	(53,336)
Interest expense – Lease	(39,958)	(33,727)
	(1,603,668)	(1,245,086)

- SME finance project expense (19.96 mill)birr is reclassified from Interest on saving deposits to Interest on borrowings from domestic banks as of 30 June 2022 but the total figure isn't affected by the change.

11 Fees and Commission Income		
Commission on letters of credit	88,156	92,023
Commission on CPOs, Cheques and FTs	1,670	1,952
Commission on guarantees	122,782	64,387
Fees Income	280,054	363,738
Commission on PO issuance	19,353	44,580
	512,015	566,680
Fee and commission expense :		
Fee and commission Expense	(76,842)	(20,666)
	(76,842)	(20,666)
Net fees and commission Income	435,173	546,014

- From the total operating expense birr 4.4 mill reclassified from miscellaneous expense to fee and commission expense as of 30 June 2022.

	30 June 2023 Birr'000	30 June 2022 Birr'000
12 Other Operating Income		
Other income	39,700	149,788
Gain on foreign exchange	188,466	307,419
	228,166	457,207



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- From the total operating income birr 5.1 mill reclassified from other income to fee income in Fees and Commission Income as of 30 June 2022 but the total income isn't affected by the change.

	30 June 2023 Birr'000	30 June 2022 Birr'000
13 Impairment losses on Financial Instruments		
Loan Impairment Charge	(207,763)	(336,962)
Impairment Loss-Other Financial Assets	(103,386)	(7)
	(311,149)	(336,969)

	30 June 2023 Birr'000	30 June 2022 Birr'000
14 Personnel Expenses		
Short term employee benefits :		
Salaries	(1,061,522)	(860,810)
Staff allowances	(226,354)	(96,709)
Overtime	(20,386)	(17,772)
Bonus	-	(49,606)
Training and Education	(49,123)	(12,772)
Leave Payment	(21,313)	(15,267)
Pension costs – Defined contribution plan	(115,039)	(91,170)
Provident Fund – Defined contribution plan	(11,105)	(11,431)
Other staff expenses	(82,558)	(46,326)
	(1,587,400)	(1,201,863)
Long term employee benefits :		
Defined benefit plans-Severance	(28,870)	(17,915)
	(1,616,270)	(1,219,778)

- Extra time work payment expense (11.1mill) birr is reclassified from miscellaneous expense in other operation expense category to other staff expense in personnel expense as of 30 June 2022. The management belief that other staff expense is fairly present extra time work payment than other operating expense.

	30 June 2023 Birr'000	30 June 2022 Birr'000
15 Other Operating Expenses		
Rent	-	-
Utilities	(10,638)	(4,681)
Advertisement and promotions	(44,218)	(27,725)
Software Maintenance Fee	(40,141)	(37,907)
Sponsorship expenses	(4,763)	(873)
Communication expense	(19,012)	(17,632)
Postage and stamps	(325)	(344)
Stationery and office expenses	(87,863)	(53,462)
Legal and professional fees	(860)	(1,977)
Audit fees	(449)	(376)
Repairs and maintenance	(39,636)	(24,565)
Travelling expenses	(16,163)	(11,590)
Donations	(32,748)	(22,025)



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Insurance	(25,717)	(21,287)
Entertainment	(6,834)	(4,559)
Fuel and lubricant	(10,081)	(4,708)
Miscellaneous expenses	(36,626)	(45,950)
License fees	(294)	(192)
Director fees	(1,270)	(1,269)
Fines and penalty	(546)	(8,552)
Loss on foreign exchange	(168,941)	(227,903)
Loss on Revaluation or Disposal	-	(369)
Impairment Loss - Property	(75)	(244)
Inventory Write-Down Expense	(15)	(53)
Impairment Loss on Assets Held for Sale	(100)	-
	(547,315)	(518,243)

16 Company Income and Deferred Tax

16a 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 2023 Birr'000	30 June 2022 Birr'000
Current income tax		
Charge for the year:	57,239	94,669
Prior year (over)/ under provision	21,952	-
Deferred income tax/(credit) to profit or loss	17,418	10,245
Total charge to profit or loss	96,609	104,914
Tax (credit) on other comprehensive income	(62,095)	(21,541)
Total tax in statement of comprehensive income	34,514	83,373

	30 June 2023 Birr'000	30 June 2022 Birr'000
Profit before tax	605,235	583,436
Add : Disallowed Expenses		
Entertainment	6,834	4,559
Donation	72	15,010
Sponsorship	4,763	873
Penalty	546	8,552
Awards	530	1,132
Accrued Leave Expense	21,313	15,267
Amortization of Right of Use asset	248,240	186,844
Interest Expense on Lease Liability	39,958	33,727
Impairment Loss - Property	75	244
Impairment Loss on Assets Held for Sale	100	-
Inventory Write-Down Expense	15	53
Provision for loans & other financial assets as per IFRS	311,149	336,969
Severance Expense	28,870	17,915
Depreciation for IFRS accounting purpose	119,221	89,463
Amortization for IFRS accounting purpose	3,773	3,785



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Prior Period Tax Expense	-	27,605
Cash Indemnity Allowance	10,296	6,814
Employee Interest rate Benefit-IFRS	(24,562)	-
Employee Interest rate Benefit-Tax	118,652	-
	889,845	748,810
Less :		
Depreciation for tax purpose	203,991	148,933
Amortization of Prepaid Rent and Lease	267,448	217,131
Provision for loans & other financial assets for tax NBE 80%	443,363	243,467
Severance Paid	17,963	3,560
Leave Paid	8,962	3,201
Interest income taxed at source- foreign	2,825	-
Reversal of Severance Provision	-	-
Dividend income taxed at source	5,844	3,940
Interest income taxed at source-NBE Bills and T-Bills	251,474	217,199
Interest income taxed at source-Local Deposit	99,568	66,050
Gain from reversal of impairment allowance	157	112,892
Cash Indemnity Allowance Paid	3,117	312
Gain On Lease Modification	42	-
	1,304,754	1,016,684
Taxable profit	190,327	315,563
Current tax at 30%	57,098	94,669
5% on interest on foreign deposits	141	-
Total tax in statement of comprehensive income	57,239	94,669
Average Effective Tax Rate:	9.46	16.23

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
16b Current income tax liability		
Balance at the beginning of the year	94,538	127,952
Charge for the year	57,239	94,669
Capital gains tax	-	-
Income tax expense	-	-
Prior year (over)/ under provision-Employee discount benefit	21,952	-
WHT Notes utilized	(115)	(130)
Payment during the year	(94,538)	(127,952)
Balance at the end of the year	79,077	94,538

16c

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

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	30 June 2023 Birr'000	30 June 2022 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(17,857)	(17,857)
To be recovered within 12 months	-	-
	(17,857)	(17,857)

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 2022 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2023 Birr'000
Property, plant and equipment	40,278	25,535	-	65,813
Provisions	-	-	-	-
Unrealised exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post-employment benefit obligation	(22,421)	(8,117)	-	(30,539)
Total deferred tax assets/(liabilities)	17,857	17,418	-	35,275

Deferred income tax assets/(liabilities):	At 1 July 2021 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2022 Birr'000
Property, plant and equipment	24,955	15,323	-	40,278
Provisions	-	-	-	-
Unrealized exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post-employment benefit obligation	(17,343)	(5,078)	-	(22,421)
Total deferred tax assets/(liabilities)	7,612	10,245	-	17,857



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17	Cash and Cash Equivalents	30 June 2023 Birr'000	30 June 2022 Birr'000
17a	Cash and balances with banks		
	Cash in hand local currency	1,746,191	1,583,181
	Cash in hand foreign currency	22,110	67,291
	Placement with other Institutions	988,752	547,559
	Deposits with foreign banks	653,829	248,447
	Balance held with National Bank of Ethiopia	321,931	697,023
	Gross amount	3,732,813	3,143,501
	Less :		
	Allowance for Impairment- Bank Balances	(89)	(62)
		3,732,724	3,143,439

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000
Current	1,322,113	1,307,801
Non-Current	2,410,700	1,835,700
	3,732,813	3,143,501

	30 June 2023 Birr'000	30 June 2022 Birr'000
17b	Due from Banks & Other Financial Institutions :	
	ATM Settlement-Off Us	211,913
	Cheque Clearance-Outward	5,459
	Foreign Currency Receivable	55,862
	Mobile Fund Transfer-Off Us	3,446,685
		444,942
		3,719,919

	30 June 2023 Birr'000	30 June 2022 Birr'000
17c	Restricted Fund Balance	2,410,700
		1,835,700

- The restricted fund balance represents 7% of deposit balance maintained with National Bank of Ethiopia.

	30 June 2023 Birr'000	30 June 2022 Birr'000
18 Loans and Advances		
18a Loans and advances to customers		
Agriculture	102,126	90,036
Building and construction	5,477,570	4,307,720
Domestic trade and services	7,625,159	6,124,960
Export	1,169,467	1,150,413
Hotel and Tourism	425,279	373,600
Health and Education Service	159,851	-
Import	1,898,018	1,655,629
Manufacturing	2,881,224	2,717,376
Merchandise Loans	40,790	140
Overdrafts	2,703,459	1,470,046
Personal loan	2,601,839	1,926,430
Pre-Shipment	1,149,898	241,977
Staff loan	2,236,378	1,659,143
Transport	419,987	459,055
Gross amount	28,891,045	22,176,525
Less: Impairment allowance (note 18b)		
Collective impairment		
Stage 1	(194,483)	(183,882)
Stage 2	(4,364)	(1,765)
Stage 3	(864,911)	(670,347)
	27,827,288	21,320,531
Less :		
Interest in suspense	(69,921)	(37,949)
Staff Loan Market Interest Adjustment	(411,309)	(338,117)
Net Loan Balance	27,346,058	20,944,465

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000
Current	8,956,224	6,874,723
Non-Current	19,934,821	15,301,802
	28,891,045	22,176,525

18b Impairment Allowance for Loans and Advances

IFRS 9 key guidance on segmentation

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

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

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

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

1. Agriculture
2. Construction and Building (Including Hotel and Tourism)
3. Domestic Trade and Services (Including Transport and Communication, Health & Education Service)
4. Export and Imports
5. Manufacturing
6. Personal Loans (Including Staff Loans and Diaspora Loans)

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

<i>Collective allowance for impairment</i>	As at 30 June 2022 Birr'000	Charge for the year Birr'000	30 June 2023 Birr'000
Allowance For Impairment - Agriculture	(520)	(141)	(661)
Allowance For Loan Impairment - Building And Construction	(613,852)	(17,140)	(630,992)
Allowance For Loan Impairment - DTS	(69,223)	(95,488)	(164,711)
Allowance For Loan Impairment - Export and Imports	(26,145)	(92,341)	(118,486)
Allowance For Loan Impairment - Manufacturing	(8,350)	3,518	(4,832)
Allowance For Loan Impairment - Personal	(5,723)	(972)	(6,695)
Allowance For Loan Impairment - merchandise loans	-	(177)	(177)
Allowance For Loan Impairment - Pre-shipment loans	(44,818)	(4,427)	(49,245)
Allowance For Loan Impairment - Overdrafts	(87,347)	(592)	(87,939)
Allowance For Loan Impairment - Emergency staff loans	(15)	(3)	(18)
Total - Collective Impairment	(855,993)	(207,763)	(1,063,756)

<i>Collective allowance for impairment</i>	As at 30 June 2021 Birr'000	Charge for the year Birr'000	30 June 2022 Birr'000
Allowance For Impairment - Agriculture	(320)	(200)	(520)
Allowance For Loan Impairment - Building And Construction	(353,875)	(259,977)	(613,852)
Allowance For Loan Impairment - DTS	(61,765)	(7,458)	(69,223)
Allowance For Loan Impairment - Export and Imports	(40,889)	14,744	(26,145)
Allowance For Loan Impairment - Manufacturing	(3,126)	(5,224)	(8,350)
Allowance For Loan Impairment - Personal	(4,305)	(1,418)	(5,723)
Allowance For Loan Impairment - merchandise loans	(96)	96	-
Allowance For Loan Impairment - Pre-shipment loans	(17,178)	(27,640)	(44,818)
Allowance For Loan Impairment - Overdrafts	(37,469)	(49,878)	(87,347)



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Allowance For Loan Impairment - Emergency staff loans	(9)	(6)	(15)
Total - Collective Impairment	(519,032)	(336,961)	(855,993)

19 Investment Securities

	30 June 2023 Birr'000	30 June 2022 Birr'000
19a Bonds and Bills	3,833,127	3,300,093
Less:		
Allowance for impairment - Bills & Bonds	(124)	(165)
Net Bond and Bills	3,833,003	3,299,928
19b Equity Investments	60,657	30,138
Fair Value Adjustment – Equity Investments	245,957	94,625
Net Equity Investments	306,614	124,763

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000
Current	3,833,003	3,299,928
Non-Current	306,614	124,763
	4,139,617	3,424,691

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

30 June 2023 Birr'000	Number of shares	% owned as per the Bank	Amount invested in '000	Fair Value as per IFRS 9
Ethswitch S.C.	40,877	8.59%	40,877	277,491.69
Berhan Insurance S.C.	13,313	4.92%	13,313	19,057.86
Premier Switch Solution S.C	4,800	1.22%	4,800	8,591.04
Debo Micro Finance S.C.	1,667	3.09%	1,667	1,473.15
Total Equity Investments				306,614

30 June 2022 Birr'000	Number of shares	% owned as per the Bank	Amount invested in '000	Fair Value as per IFRS 9
Ethswitch S.C.	14,482	3.04%	14,482	96,823.54
Berhan Insurance S.C.	9,189	4.90%	9,189	10,191.10
Premier Switch Solution S.C	4,800	3.21%	4,800	16,284.99
Debo Micro Finance S.C.	1,667	8.34%	1,667	1,463.03
Total Equity Investments				124,763

	30 June 2023 Birr'000	30 June 2022 Birr'000
20 Other assets		
Financial assets		
Other Receivables	945,735	621,302
	945,735	621,302
Non-financial assets		
Prepayments	38,209	34,143
Prepaid Staff Benefits	486,557	388,803
	524,766	422,946
Gross amount	1,470,501	1,044,248
Less :		
Impairment allowance for Other assets	217,235	113,928
Net amount	1,253,266	930,320

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000
Current	375,980	279,096
Non-Current	877,286	651,224
	1,253,266	930,320

20a Impairment Allowance on Other Assets

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Balance at the beginning of the year	226,618	226,618
(Reversal)/charge for the year	103,359	-
Balance at the end of the year	329,978	226,618



20b Inventory

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Sundry materials	29,415	16,291
Check books	5,167	4,788
Stationary	17,731	8,591
Printed materials	24,688	11,430
Draft and CPO	1,179	1,299
Revenue stamp	74	55
Gross amount	78,254	42,454
Less:		
Allowance for Inventory Write-Down	(75)	(61)
	78,179	42,393

20c Non-Current Assets Held for Sale

	30 June 2023 Birr'000	30 June 2022 Birr'000
Assets Held for Sale	58,536	58,536
Less:		
Allowance for Impairment Assets Held for Sale	(495)	(395)
	58,041	58,141

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

21 Investment Property

Investment property is property (land or a building—or part of a building—or both) held to earn rentals or for capital appreciation or both.

- Investment property is initially measured at cost.
- The Bank uses fair value model through Profit or Loss for subsequent measurement of investment property.
- Any gain or loss resulting from either a change on the fair value or sale of an investment property is immediately recognized in profit or loss with in change in fair value of investment property.



22 Intangible Assets

	Computer software Birr'000
Cost:	
As at 1 July 2021	20,733
Acquisitions	4,365
Disposal	-
As at 30 June 2022	25,098
As at 1 July 2022	25,098
Acquisitions	-
Disposal	-
As at 30 June 2023	25,098
Accumulated amortization and impairment losses	
As at 1 July 2021	8,705
Amortization for the year	3,785
Impairment losses	-
As at 30 June 2022	12,489
As at 1 July 2022	12,489
Amortization for the year	3,773
Impairment losses	-
As at 30 June 2023	16,263
Net book value	
As at 30 June 2022	12,609
As at 30 June 2023	8,835



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23 Property and equipment

	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories	Right-of-use asset	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Cost:							
As at 01 July 2021	42,250	269,828	277,610	148,204	146,186	873,868	1,757,947
Additions	28,364	110,710	90,361	83,871	60,247	450,269	823,822
Disposals	-	(600)	(1,725)	-	-	-	(2,324)
Reclassification	-	-	-	-	-	-	-
As at 30 June 2022	70,614	379,938	366,247	232,075	206,434	1,324,136	2,579,444
Accumulated amortization and impairment losses							
As at 01 July 2021	2,149	55,013	89,318	38,723	43,469	272,150	500,823
Charge for the year	790	13,386	37,767	16,075	21,445	186,844	276,307
Impairment Loss	-	-	104	37	103	-	244
Disposals	-	(479)	(1,079)	-	-	-	(1,558)
As at 30 June 2022	2,939	67,921	126,110	54,836	65,017	458,994	775,816
Cost:							
As at 01 July 2022	70,614	379,938	366,247	232,075	206,434	1,324,136	2,579,444
Additions	-	121,320	106,842	90,050	67,170	476,313	861,694
Disposals	-	-	(4)	-	(71)	-	(75)
Reclassification	-	-	-	-	-	-	-
As at 30 June 2023	70,614	501,258	473,085	322,124	273,532	1,800,449	3,441,063
Accumulated amortization and impairment losses							
As at 01 July 2021	2,939	67,921	126,110	54,836	65,017	458,994	775,816
Charge for the year	1,283	10,712	46,937	28,035	32,253	248,240	367,461
Impairment Loss	-	-	75	(54)	(85)	-	(64)
Disposals	-	-	(2)	-	(31)	-	(33)
As at 30 June 2023	4,222	78,633	173,120	82,817	97,155	707,234	1,143,181
Net book value							
As at 30 June 2022	67,675	312,018	240,137	177,239	141,417	865,142	1,803,626
As at 30 June 2023	66,392	422,625	299,965	239,308	176,378	1,093,215	2,297,882

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

	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories
As at 30 June 2022	-	-	35	0.3	63
As at 30 June 2023	-	1,361	35	0.3	-

24 Liabilities

	30 June 2023 Birr'000	30 June 2022 Birr'000
24a Due to Banks & Other Institutions		
Cheque Clearance-Inward	9,193	4,953
ATM Settlement-On Us	98,243	250,182
Mobile Fund Transfer-On Us	3,410,972	90,021
	3,518,408	345,156

	30 June 2023 Birr'000	30 June 2022 Birr'000
24b Deposits from Customers		
Demand deposits	8,949,876	6,072,780
Savings deposits	21,770,027	18,209,468
Time deposits	3,062,391	1,745,027
	33,782,294	26,027,275

- A business saving account with the amount of 2.6 bills is reclassified from demand deposit to saving deposit for 30 June 2022 but the total deposit balance is not affected by the change.

	30 June 2023 Birr'000	30 June 2022 Birr'000
Borrowings	559,028	-

- The Source of borrowing is the National bank of Ethiopia (NBE) with a contractual rate of 16% per annum. The bank uses its Treasury bills as a means of collateral.

	30 June 2023 Birr'000	30 June 2022 Birr'000
Margins held on letters of credit	365,273	454,304



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24c Other Liabilities	30 June 2023 Birr'000	30 June 2022 Birr'000
Financial Liabilities		
Banking instruments payables	219,716	94,931
Unearned Income	41,842	32,723
Lease liability	459,574	360,226
Total Financial Liabilities	721,132	487,880
Non-Financial Liabilities		
Tax and Other Obligations	54,800	58,672
Sundry payables	733,644	937,965
Total Non-Financial Liabilities	788,444	996,637
Total Financial and Non-Financial Liabilities	1,509,576	1,484,517

Breakdown of Tax and Other Obligations:

	30 June 2023 Birr'000	30 June 2022 Birr'000
Employer Pension Cont	8,987	10,238
Income Tax Payable	23,784	26,083
Stamp Duty Charges	4,787	7,422
Income Tax on Savings Interest	7,277	5,454
Withholding Tax-Local	1,356	1,511
Value Added Tax-Vat Payable	1,713	-
Withholding Tax -Technical Service-Abroad	674	747
Cost Sharing Expense Payable	-	1
Reverse Taxation Payable	532	747
Employee Pension Cont	5,643	6,467
Royalty Tax	47	-
	54,800	58,670

24d Provisions	30 June 2023 Birr'000	30 June 2022 Birr'000
Leave Pay	65,052	52,701
Bonus Payable	-	49,604
	65,052	102,305



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24e Retirement Benefit Obligations		30 June 2023 Birr'000	30 June 2022 Birr'000
Defined benefits liabilities:			
Severance pay	Note 24 (f)	101,795	74,737
Liability in the statement of financial position		101,795	74,737
Income statement charge included in personnel expenses:			
Severance costs	Note 24(f)	28,870	17,915
Total defined benefit expenses		28,870	17,915
Remeasurements for:			
Remeasurement gains/(losses)	Note 24(f)	(16,151)	(2,571)
		(16,151)	(2,571)

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

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000
Current	13,093	10,541
Non-Current	88,702	64,196
	101,795	74,737

24f Severance Pay

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

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
A Liability recognized in the financial position	101,795	74,737
B Amount recognized in the profit or loss	30 June 2023 Birr'000	30 June 2022 Birr'000
Current service cost	10,188	8,270
Interest cost	18,682	9,645
	28,870	17,915

24g Retirement Benefit Obligations (Contd)

Amount recognized in other comprehensive income:

Actuarial (Gains)/Losses on demographic assumptions	-	-
Actuarial (Gains)/Losses on economic assumptions	8,560.00	(7,010)
Actuarial (Gains)/Losses on experience	7,591.00	9,581
	16,151	2,571

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
(Liability)/Asset at beginning of period	74,737	57,811
(Expense)/Income recognized in OCI	7,591	9,581
(Expense)/Income recognized in Profit and Loss	28,870	17,915
Remeasurement (gains)/ losses	8,560	(7,010)
Benefits paid	(17,963)	(3,560)
At the end of the year	101,795	74,737

The significant actuarial assumptions were as follows:

Financial Assumption Long term Average

i)

	30 June 2023 Birr'000	30 June 2022 Birr'000
Discount rate (p.a)	20.60%	24.60%
Inflation Rate	15.10%	17.30%
Long term salary Increase rate (p.a)	17.10%	19.30%

ii) Mortality in Service

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

Age	Mortality rate	
	Male	Female
20	0.31%	0.22%
25	0.30%	0.23%
30	0.36%	0.31%
35	0.41%	0.28%
40	0.52%	0.32%
45	0.45%	0.43%
50	0.63%	0.63%
55	0.98%	0.98%
60	1.54%	1.54%

24h Retirement Benefit Obligations (Contd)

iii) Withdrawal from Service

The withdrawal rates are as summarized below:

Age	Resignation rates per annum
20	15.00%
25	12.50%
30	10.00%
35	7.50%
40	5.00%
45	2.50%
50+	0.00%

25 Ordinary Share Capital

	30 June 2023 Birr'000	30 June 2022 Birr'000
Authorized:		
Ordinary shares of Birr 1,000 each	3,350,433	3,159,025
Issued and fully paid:		
Ordinary shares of Birr 1,000 each	3,350,433	3,159,025
Share Premium (Net of tax)	15,847	13,632

As at 30 June 2023, the authorized share capital of the Bank comprised of 3,350,433 ordinary shares with a par value of Birr 1000. Issued and fully paid ordinary shares, which have a par value of Birr 1000, carry one vote per share and carry a right to dividend.

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

26 Retained Earnings

	30 June 2023 Birr'000	30 June 2022 Birr'000
At the beginning of the year	235,631	87,563
Profit / (loss) for the year	508,626	478,522
Transfer to legal reserve	(127,157)	(119,631)
Dividend provided for / paid	(235,631)	(87,563)
Director's Share of Profit	(1,425)	(1,588)
Prior Period Tax Expense	(34,918)	-
Transfer to Regulatory Risk Reserve	(148,733)	(121,674)
Transfer from Regulatory Risk Reserve	-	-
At the end of the year	196,394	235,631



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Prior period tax expense occurred due to additional tax levied by the Tax authority in connection with employees discounted interest benefit for the period ended 2020 and 2021.

27 Legal Reserve

	30 June 2023 Birr'000	30 June 2022 Birr'000
At the beginning of the year	729,527	609,896
Transfer from profit or loss	127,157	119,631
At the end of the year	856,684	729,527

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

28 Other Reserves:

	30 June 2023 Birr'000	30 June 2022 Birr'000
Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(38,974)	(22,823)
Movement in fair value reserve-equity instruments	245,957	94,625
	206,983	71,802
Income tax relating to Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(11,692)	(6,847)
	-11,692	-6,847
Net Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(27,282)	(15,976)
	(27,282)	(15,976)
Income tax relating to Other comprehensive income :		
Movement in fair value reserve-equity instruments	73,787	28,388
	73,787	28,388
Net Other comprehensive income :		
Movement in fair value reserve (equity instruments)	172,170	66,238
	172,170	66,238

29 Regulatory Risk Reserves:

	30 June 2023 Birr'000	30 June 2022 Birr'000
At the beginning of the Year	254,371	132,697
Transfer from/to Retained Earning-Receivable Provision	86,804	11,792
Transfer from/to Retained Earning-Suspended Interest	61,929	109,881
At the end of the Year	403,104	254,371

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the Expected Credit Loss Model.

Where the loan loss impairment determined using the National Bank of Ethiopia guidelines is higher than the loan loss impairment determined using the Expected Credit Loss Model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia guidelines is lower than the loan loss impairment determined using the Expected Credit Loss Model under IFRS, the difference is transferred from regulatory risk reserve to retained earnings to the extent of the non-distributable reserve previously recognized.

In addition the suspended interest from non-performing loans which is recognized as income under IFRS is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

30 Earnings per Share

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
Net profit attributable to ordinary equity holders		508,626	478,522
Weighted average number of ordinary shares		3,256,697	3,069,098
Basic Earnings per share of Birr 1,000		156.18	155.92
Retained earnings balance available for distribution to ordinary equity holders	24	196,394	235,631
Weighted average number of ordinary shares		3,256,697	3,069,098
Net Basic Earnings per share of Birr 1,000		60.30	76.78

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

The net Basic earnings per share is calculated after deducting legal reserve and regulatory reserves from the net profit for the year and dividing it by the weighted average number of ordinary shares outstanding during the year.

31 Related Party Transactions

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

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

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

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and to companies associated with directors. Contingent liabilities include guarantees and letters of credit for companies associated with directors.

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

31a Loans and Advances

	30 June 2023 Birr'000	30 June 2022 Birr'000
<i>Companies associated with directors</i>		
At the beginning of the year	109,470	96,251
Net movement during the year	129,655	13,219
At the end of the year	239,125	109,470
Guarantees and letters of credit to companies associated with directors	-	-

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
<i>Directors</i>		
At the beginning of the year	59,918	45,504
Net movement during the year	23,493	14,414
At the end of the year	83,411	59,918
Guarantees and letters of credit to directors	-	-

These loans and advances are performing and are adequately secured.

31b Deposit by Directors and key management personnel

	30 June 2023 Birr'000	30 June 2022 Birr'000
At the beginning of the year	7,185	1,072
Net movement during the year	(5,559)	6,114
At the end of the year	1,627	7,185

31c Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2023.

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	30 June 2023 Birr'000	30 June 2022 Birr'000
Salaries and other short-term employee benefits	44,405	39,420
Post-employment benefits	-	-
Termination benefits	-	2,107
Sitting allowance	2,848	2,079
Other expenses	301	66
	47,553	43,672

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

31d Directors and Employees

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

	30 June 2023 In Number	30 June 2022 In Number
Professionals and High Level Supervisors	20	9
Semi-professional, Administrative and Clerical	388	684
Technician and Skilled	-	5
Manual and Custodian	108	600
	516	1,298

ii) The table below shows the number of employees (excluding directors), who earned over Birr 25,000 as emoluments in the year and were within the bands stated.

	30 June 2023 In Number	30 June 2022 In Number
25,000 - 40,000	381	368
40,001 - 60,000	266	209
60,001 - 100,000	59	7
Above 100,000	5	4
	711	588

32 Contingent Liabilities

32a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2023 is Birr 61.85 million. Appropriate Provision has been held in the financial statements. In addition, the bank has claimed by the tax authority related to dividend tax and the bank appeal to the Federal Democratic



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Republic of Ethiopia Tax Appeal Commission and the maximum exposure of the bank is 184.3mill.

Claims by the bank

The bank has instituted suits against third parties arising from the normal course of business. There is no possible claim arising from settlement of these cases as at 30 June 2023.

32b Contingent liabilities and commitments

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

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Guarantees issued and outstanding	3,068,344	1,673,454
Commitments on letters of credit net of margin paid	46,749	272,506
Loans approved but not disbursed	1,642,612	772,229
	4,757,705	2,718,188

33 Commitments

The Bank has commitments, not provided for in these financial statements, as of 30 June 2023 Birr 170.8million (30 June 2022: Birr 172.5 million) for purchase of various capital items.

34 IFRS 16 - Leases

The Bank leases a number of branch and office premises. The leases typically run for a period of 5 to 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

For short-term and/or leases of low-value items, the Bank has elected not to recognize right-of-use assets and lease liabilities for these leases.

i. Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment.

<i>In millions of ETB</i>	1-Jul-23	1-Jul-22
Balance at 1 July	865,142.25	601,718
Depreciation charge for the year	(248,240)	(186,844)
Additions	476,313	450,269
Balance at 30 June 2022	1,093,215	865,142



ii. Amounts recognized in profit or loss

<i>In millions of ETB</i>	30-Jun-23	30-Jun-22
Interest on lease liabilities	(39,958)	(33,727)

iii. Amounts recognized in statement of cash flows

<i>In millions of ETB</i>	30-Jun-23	30-Jun-22
Total cash outflow for leases	(62,369)	(49,955)

iv. Extension options

Most leases of office premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

35 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2023 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

