



Experience
Stress-free Banking

በርሃን
Berhan Bank

ANNUAL REPORT 30 JUNE 24

Berhan Bank S.C
For the period ended 30 June 2024
Contents

Directors and professional advisers	3
Report of the directors	6
Statement of directors' responsibilities	7
Independent auditor's report	8
Statement of profit or loss and other comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14- 92



Berhan Bank S.C
For the period ended 30 June 2024
Abbreviations

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 2024
Directors, professional advisers and registered office

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

Directors (As of July 1, 2024)

Ato Eligo Legesse Motta	Chairperson	Appointed on 19 April 2024
Ato Ermias Girma Tekle	V/Chairperson	Appointed on 19 April 2024
Wzo. Meron Gezahegn Seifu	Member	Appointed on 19 April 2024
Ato Sibu Ayele Etefa	Member	Appointed on 19 April 2024
Ato Jaleta Wordoffa Gurarra	Member	Appointed on 19 April 2024
Ato Biniam Bedewi Mohammed	Member	Appointed on 19 April 2024
Dr. Lemma Degefa Gudeta	Member	Appointed on 19 April 2024
Dr. Abaydar Kettema Woldeeab	Member	Appointed on 19 April 2024
Dr. Aynalem Abayneh Mamo	Member	Appointed on 19 April 2024
Ato Daniel Wondimu Wolderufael	Member	Appointed on 19 April 2024
Ato Girma Mamo Milky	Member	Appointed on 19 April 2024

Executive management (As of July 1, 2024)

Ermias Tefera Shawel	President	Appointed on 08- Jan-2024
Bethlehem Getachew Metaferia	VP - Corporate Service	Appointed on 24-January 2024
Solomon Assefa Haile	VP- Operations	Appointed on 01-January 2023
Amanuel Tadesse W/Gebriel	VP - Customer Accounts and Digital Banking	Appointed on 24-January 2024
Desta Bekalo Sapa	VP - Strategy and Marketing	Appointed on 26-December 2022
Rodas Solomon Aweitu	Acting VP-Chief Information Officer	Appointed on 01-June-2022
Wale Yirga Yigzaw	Assistant Vice President-Human Capital Management	Appointed on 01-July 2022
Bethlehem Fetene Shawil	Executive Assistant to the President	Appointed on 19-Feb 2024
Daniel G/Medihin Kahsay	Acting Director - Research and Business Development	Appointed on 23-January 2024
Desalegn Fisschatsion Altasch	Director - Finance and Accounts	Appointed on 29-Jan-2014
Belay Mebrat Tegen	Director - IT Application Support and Development	Appointed on 16-December- 2021
Rahel Alem Ayalew	Director -Digital Banking Application	Appointed on 24-Septemeber- 2021
Yared Aguade Wubneh	Director- Engineering & Valuation	Appointed on 28-Oct-2015
Assefa Taye Ketema	Director- Legal Service	Appointed on 26-June 2020
Bayissa Milkessa Filla	Director- Portfolio Management & Credit Follow-up	Appointed on 23-January 2024
Anteneh Mekonnen Maru	Director- Risk Management and Compliance	Appointed on 23-Nov-2016



Berhan Bank S.C
For the period ended 30 June 2024
Directors, professional advisers and registered office

Thomas Desalegn Beyene	Director - Transformation & Change Management Office	Appointed on 16-April 2024
Shimelis Tesfaye Reta	Director, Internal Audit	Appointed on 31-Mar-2023
Masresha Hailemickael Gonfa	Director-Corporate Customer & Relationship	Appointed on 01-Mar-2017
Abey Berhane Embeza	Director-Credit Analysis and Appraisal	Appointed on 23-January 2024
Elsa Ketema Gebre	Director - Marketing and Communication	Appointed on 23-January 2024
Feyera Ejeta Gurmessa	Director-Digital Financial Service	Appointed on 01-January 2021
Tilahun Endris Seid	Director - Talent Development	Appointed on 25-April-2024
Semenawit Abadi Kenaw	Director-Planning and Strategic Management	Appointed on 01-Mar-2017
Dagmawi Kasahun Mengesha	Director - Trade Service	Appointed on 23-January 2024
Kidist Abreham Kidane	Director - Customer Accounts & Resource Mobilization	Appointed on 23-January 2024
Tesfaye Maru Abate	Director-Treasury and Investment	Appointed on 01-Mar-2018
Lule Itana Ayana	Director - Research and Business Development	Appointed on 23-January 2024
Habtemariam Gebeyehu Tegegn	Deputy Director- Legal Services	Appointed on 01-July 2022
Netsanet Tilahun Leliso	Deputy Director- Share Administration	Appointed on 28-January 2021
Binyam Mesfin Demeke	Director - Facility Management	Appointed on 23-January 2024
Sirak Amare Shiferaw	Director - Talent Management	Appointed on 23-January 2024
Hagos Berhane Desta	Director - South Addis District	Appointed on 23-January 2024
Dereje Getaneh Tesema	Director - East Addis District	Appointed on 23-January 2024
Ermyas Girma Taye	Director-South District	Appointed on 01-January 2022
Fikremarkos Yigrem Mekonnen	Director- West Addis District	Appointed on 06-January 2023
Solomon Tadesse Degu	Director - North Addis District	Appointed on 23-January 2024
Daniel Methewos Meja	Director - East District	Appointed on 23-January 2024
Tamiru Behaga Dikte	Acting Director - Corporate Customer and Relationship	Appointed on 05-February-2024
Kibebe Gerauwork Jembere	Deputy Director- Customer Accounts and Resource Mobilization	Appointed on 01-July 2022
Solomon Ayalew Legesse	Deputy Director - Rehabilitation and Development	Appointed on 23-January 2024
Fikadu Assefa Kebede	Deputy Director- Finance & Accounts	Appointed on 01-July 2022
Meheretu Awano Lamtecha	Deputy Director - Facilities Management	Appointed on 23-January 2024
Nebiyou Seid Mohammed	Deputy Director - Performance Management System	Appointed on 23-January 2024
Yared Ashenafi Berhanu	Acting Director - IT Infrastructure	Appointed on 25-May 2023



Berhan Bank S.C
For the period ended 30 June 2024
Directors, professional advisers and registered office

Independent Auditor

Kokeb and Melkamu Audit Partnership
Chartered Certified Accounts/UK/
P.O. Box 33645
Fax:0115522688
Email: Kokmelk@gmail.com
Addis Ababa
Ethiopia

Corporate office

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

Company secretary

TK International building
China - Africa Square
P.O Box 387 - 1110
Addis Ababa, Ethiopia
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 AKTIENGESSELLSCHAFT, FRANKFURT AM MAIN DE, Swift code: BHFBDFF500
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 2024

The directors submit their report together with the financial statements for the period ended 30-June 2024, 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 2024 are set out on the Statement of profit or loss and other comprehensive income. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Revenue	4,577,533	3,140,055
Profit / (loss) before tax	1,507,785	605,235
Tax (charge) / credit	(319,573)	(96,609)
Profit / (loss) for the year	1,188,212	508,626
Other comprehensive income / (loss) net of taxes	217,056	144,888
Total comprehensive income / (loss) for the year	1,405,268	653,514

Directors

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


Ato Eligo Legesse
Chairman of the Board of Directors
Addis Ababa, Ethiopia


Ato Emias Tefera
President



Berhan Bank S.C
Statement of Directors' Responsibilities
For the period ended 30 June 2024

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.

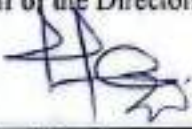
The Bank's Directors accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, Banking Business Proclamation, 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 Eligo Legesse
Chairman of the Board of Directors
19-Sep-24


Ato Ermas Tefera
President
19-Sep-24



ኮኔብ እና መልካሙ የኦዲት ሥራ ሽርክና ማህበር Kokeb & Melkamu Audit Work Partnership

Certified Accountants (UK) &
Authorized Auditors

ሠርተፋይድ አካውንታንትስ (ዓኤ) እና
የተፈቀደላቸው ኦዲተሮች

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, 2024, 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, 2024, 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



P.O. Box 33645, Addis Ababa, Ethiopia

Telephone +251-11-616-69-56

E-mail:kokmelk@gmail.com

Mobile Tel +251-911-20-37-78 & +251-911-51-61-46

ኮክብ እና መልካሙ የአዲት ሥራ ሽርክና ማህበር Kokeb & Melkamu Audit Work Partnership

Certified Accountants (UK) &
Authorized Auditors

ሠርተፋይድ አካውንታንትስ (ዩኤ) እና
የተፈቀደላቸው አዲተሮች

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 insofar as it relates to the financial statements and pursuant to Article 349 (1, 2, & 3) of the Commercial Code of Ethiopia 2021. We recommend the approval of the financial statements.

The Bank's Board of Directors, after deducting tax, legal reserve, and other deductions, has recommended to the General Assembly of Shareholders that Birr 681,088,394 be distributed as dividend payments. As the proposed dividends are subject to approval by the shareholders, we have no reservation about the proposal.

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



Addis Ababa
September 19, 2024



P.O. Box 33645, Addis Ababa, Ethiopia

Telephone +251-11-616-69-56

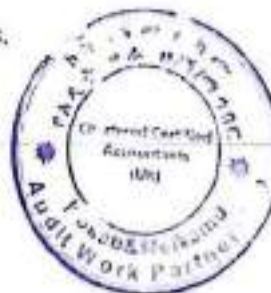
E-mail: kokmelk@gmail.com

Mobile Tel +251-911-20-37-78 & +251-911-51-61-46

Berhan Bank S.C**Statement of Profit or Loss and Other Comprehensive Income
For the period ended 30 June 2024**

		30 June 2024	30 June 2023
	Notes	Birr'000	Birr'000
Interest income	9	5,112,154	4,391,533
Interest expense	10	(1,796,517)	(1,603,668)
Net Interest Income		3,315,637	2,787,865
Fees and commission income	11	836,526	512,015
Fees and commission expense	11	(79,807)	(76,842)
Net Fee and Commission Income		756,719	435,173
Other operating income	12	438,261	228,166
Total Operating Income		4,510,617	3,451,204
Loan Impairment Charge	13	144,207	(207,763)
Impairment Loss on other Financial Assets	13	(77,291)	(103,386)
Net Operating Income		4,577,533	3,140,055
Personnel expenses	14	(2,076,281)	(1,616,270)
Depreciation of property and equipment	23	(397,107)	(367,461)
Amortization of intangible assets	22	(3,784)	(3,773)
Other operating expenses	15	(592,576)	(547,315)
Total Operating Expenses		(3,069,748)	(2,534,820)
Profit Before Tax		1,507,785	605,235
Income tax expense	16	(319,573)	(96,609)
Profit for the Period		1,188,212	508,626
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	(36,343)	(27,282)
Movement in fair value reserve (FVOCI equity instruments)-Net of Tax	28	253,399	172,170
Total Comprehensive Income for the Year, Net of Tax		1,405,268	653,514
Profit Attributable to Equity Holders		1,188,212	508,626
Earnings per share of Birr 1,000			
Basic Earnings Per Share	30	350.33	156.18

The notes are an integral part of these financial statements.



Berhan Bank S.C
Statement of Financial Position
For the period ended 30 June 2024

		30 June 2024	30 June 2023
	Notes	Birr'000	Birr'000
ASSETS			
Cash and Balances with Banks	17	4,839,915	3,732,724
Due from Banks & Other Financial Institutions	17	937,387	3,719,919
Loans and Advances to Customers	18	29,202,255	27,346,058
Equity Investments	19	460,152	306,614
Bonds and Bills	19	3,604,270	3,833,003
Other Assets	20	1,550,695	1,253,266
Inventory	20	152,044	78,179
Non-Current Assets Held for Sale	20	214,641	58,041
Intangible Assets	22	5,052	8,835
Property and Equipment	23	2,505,395	2,297,882
Restricted Fund Balance	17	2,549,700	2,410,700
Total Assets		46,021,506	45,045,221
LIABILITIES			
Due to Banks & Other Institutions	24	578,018	3,518,408
Deposits from Customers	24	36,852,193	33,782,294
Current Tax Liabilities	16	286,389	79,077
Margins Held on Letters of Credit	24	567,992	365,273
Borrowings	24	-	559,028
Other Liabilities	24	1,069,912	1,509,576
Provisions	24	250,027	65,052
Retirement Benefit Obligations	24	136,485	101,795
Deferred Tax Liabilities	16	67,295	35,275
Total Liabilities		39,808,311	40,015,777
EQUITY			
Share Capital	25	3,447,898	3,350,433
Share Premium	25	16,372	15,847
Retained Earnings	26	681,088	196,394
Legal Reserve	27	1,153,737	856,684
Other Reserve	28	310,080	206,983
Regulatory Risk Reserve	29	604,020	403,104
Total Equity		6,213,195	5,029,444
Total Liabilities and Equity		46,021,506	45,045,221

The financial statements were approved and authorized for issue by the board of directors on 19-Sep-2024 and were signed on its behalf by:

Ato Eligo Legesse
Chairman of the Board of Directors
Addis Ababa, Ethiopia

Ato Ermias Tefera
President



Berhan Bank S.C
Statement of Changes in Equity
For the period ended 30 June 2024

	Notes	Share capital	Share Premium	Retained Earnings	Risk reserve	Other Reserves	Legal Reserve	Total
		Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
As at 01 July 2022		3,159,025	13,632	235,631	254,371	71,802	729,527	4,463,987
Profit for the Period	25	-	-	508,626	-	-	-	508,626
Director's Share of Profit	26	-	-	(1,425)	-	-	-	(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	565,457
As at 30 June 2023		3,350,433	15,847	196,394	403,104	206,983	856,684	5,029,444
As at 01 July 2023		3,350,433	15,847	196,394	403,104	206,983	856,684	5,029,444
Profit for the Period	25	-	-	1,188,212	-	-	-	1,188,212
Director's Share of Profit	26	-	-	-	-	-	-	-
Other Comprehensive Income:								
Re-measurement Gains on Defined Benefit Plans	28	-	-	-	-	(12,944)	-	(12,944)
Movement in fair value reserve-equity instruments	28	-	-	-	-	116,041	-	116,041
Total Comprehensive Income for the Period		-	-	1,188,212	-	103,097	-	1,291,309
Transaction with owners in their capacity as owners:								
Contribution of equity net of transaction costs	25	97,465	525	-	-	-	-	97,990
Dividend provided for / paid	26	-	-	(196,394)	-	-	-	(196,394)
Transfer to legal reserve	26	-	-	(297,053)	-	-	297,053	-
Transfer to Regulatory Risk reserve	29	-	-	(213,470)	213,470	-	-	-
Transfer from Regulatory Risk reserve	29	-	-	12,553	(12,553)	-	-	-
Period Period Tax		-	-	(9,154)	-	-	-	(9,154)
Total		97,465	525	484,695	200,917	103,097	297,053	1,183,782
As at 30 June 2024		3,447,898	16,372	681,088	604,020	310,080	1,153,737	6,213,195



Berhan Bank S.C
Statement of Cash Flows
For the period ended 30 June 2024

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash flows from operating activities			
Profit before tax		1,507,785	605,235
Adjustment for:			
Loan impairment charges	13	(144,207)	207,763
Impairment losses on other assets	15	77,291	103,386
Amortisation of intangible assets	22	3,784	3,773
Depreciation and impairment of property, plant and equipment	23	397,137	367,536
Impairment Loss(Gain) Asset Held for Sale	15	45	100
Allowance for Inventory Write-Down	15	589	15
Gain on Disposal of Property Plant And Equipment(net)		(172,550)	(2)
Gain from reversal of impairment allowance		(71)	(157)
Interest Expense on Lease Liability	10	42,336	39,958
Payment of Severance Benefit		(13,026)	(17,975)
Gain/Loss On Lease Modification(net)		0.35	(42)
Cash Flow From Operation before Changes in Working Capital		1,699,113	1,309,591
Decrease (increase) in Loans & Advances excluding provision	18	(1,927,445)	(6,714,520)
Decrease (increase) in Non current asset held for sale	20c	(156,645)	-
Decrease (increase) in Other Assets	20	(138,998)	(321,089)
Decrease (increase) in Restricted Fund Balances	17e	(139,000)	(575,000)
Increase (Decrease) in Deposits	24b	3,069,899	7,755,019
Increase (Decrease) in Margin Held Account	24b	202,719	(89,031)
Increase (Decrease) in Other Liabilities	24c	(406,221)	47,447
Decrease (increase) Inventory	20b	(74,454)	(35,800)
Decrease (increase) Due from Banks & Other Financial Institutions	17b	2,782,532	(2,850,626)
Increase (Decrease) in Provision	22d	184,975	(37,253)
Decrease (Increase) Due to Banks & Other Institutions	24a	(2,940,390)	3,173,252
Increase (Decrease) Retirement benefit obligations-Charge for the year	24e	34,772	28,870
Cash Generated From Operation			
Withholding Tax Paid		(1,164)	(115)
Profit tax Paid	16b	(79,077)	(94,538)
Prior Period Tax		(9,154)	(34,918)
Net Cash flow from Operating Activities		2,081,462	1,561,290
Cash Flow From Investing Activities			
Purchase of Property and Equipment	23	(649,726)	(861,694)
Purchase of Intangible Assets	22	-	-
Investment in NBE Bills	19	228,677	(533,034)
Investment in Shares	19	(37,497)	(30,519)
Proceeds from sale of property and equipment	23	217,698	44
Net Cash flow from Investing Activities		(249,848)	(1,425,203)
Cash Flow From Financing Activities			
Ordinary Shares Issued	25	97,465	191,408
Share Premium Received	25	525	2,215
Dividends paid	26	(196,394)	(235,631)
Increase (Decrease) Borrowings	24b	(559,028)	559,028
Principal Lease Payment	34	(75,927)	(62,369)
Director's Share of Profit		-	(1,425)
Net Cash flow from Financing Activities		(733,358)	453,226
Changes in Cash and Cash Equivalents		1,107,255	589,313
Cash and Cash Equivalent at the Beginning of the Year		3,732,813	3,143,500
Cash Balance at end of the year		4,840,068	3,732,813



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 [19-Sep-2024].

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 recognised 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 2024 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) 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 amendment does not have any material impact on the Bank



ii) 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.

This standard does not have any material impact on the Bank.

iii) 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 amendment does not have any material impact on the Bank.

iv) 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 does not have any material impact on the Bank.

New accounting standards in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods in 2024 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, 2024. Earlier application is permitted.
Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback	The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. However, the requirements do not prevent the seller lessee from recognizing any gain or loss arising from the partial or full termination of a lease	The amendments are effective for annual periods beginning on or after January 1, 2024.

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 2024 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 recognised in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. 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 amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.



Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets 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 amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised 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 recognised as interest income or expense in the period in which the revision is made.

5.6 Recognition of income and expenses

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

The Bank, earns income from interest on loans 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 amortised 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 amortised 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 amortised cost of the asset.

Net interest income

In millions of ETB	Jun-24	Jun-23
Interest income	5,112,154	4,391,533
Interest expense	(1,796,517)	(1,603,668)
Net interest income	3,315,637	2,787,865

Effective interest rate

Interest income and expense were recognised 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.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative 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 amortised 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 recognised as the related services performed.

A contract with a customer that results in a recognised 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 recognised 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 recognised 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: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised 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 amortised 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 amortised 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 amortised cost if it meets both of the following conditions and is not designated at FVTPL:

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

- o The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- o 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 amortised 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 amortised 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 recognised on equity investments.

ii) Financial liabilities

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

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

Financial guarantees issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of: the amount of the obligation under the guarantee, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and the amount initially recognised less, where appropriate, cumulative amortization recognised 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 honour 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 recognised 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 amortised cost are recognised on the settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised 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 amortised cost are subsequently carried at amortised 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 recognised 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 recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the bank is recognised as a separate asset or liability.



The bank enters into transactions whereby it transfers assets recognised 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 recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:

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

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

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

Where the modification of a financial asset measured at amortised 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 amortised over the remaining term of the modified financial asset.



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

ii) Financial liabilities

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

Where the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability shall be recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised 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 recognised 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 recognised 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 remeasured and accounted for in accordance with the accounting policies for these categories of assets. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

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

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

5.18 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 amortised 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 recognised in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is 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	50% of cost	
Motor Vehicle	10	50% of cost	
Computer and Related items	7	35% of cost	Computer and accessories are included Computer, UPS, Switch, Patch panel---
Furniture and Fitting			
Short lived Furniture and Fittings	7	45% of cost	Chairs
Medium lived Furniture and Fittings	10	50% of cost	Included, partition, cage , counter ----
Long Lived Furniture and Fittings	20	20% of cost	Vault /strong room
Equipment:			
Short lived Equipment	5	15% of cost	Counting Machine, photocopy, FCY, Display and detector, Printer, Scanner and electronic related items ...
Medium lived Equipment	10	45% of cost	Generator ,ATM and Others
Long lived equipment	20	25% 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 recognised 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 amortised 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 recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

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

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



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

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

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single 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 recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

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 amortised over the period in which the service is to be enjoyed.

(b) Other Receivables

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

(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 recognised at their fair value on the inception date. The fair value is determined on inception date as the present value of all the future cash receipts (instalments) from the staff members using the prevailing market rate of interest as the discounting factor. The market rate was determined by reference to what the staff members would have been charged to access a similar loan facility from the financial market (similar in terms of currency, term, type of interest rate and other factors). The market rate was set by the Ethiopian Bankers Association. Accordingly for the year 2023/24, interest rate of 12% was used for mortgage loans, and for other loan type's interest rate of 12.73%.

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

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

5.26 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 recognised as personnel expenses in profit or loss. Prepaid contributions are recognised 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 Banks's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised 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 recognised 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 recognised 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 recognised immediately in profit or loss. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(c) Other Long-term Employee Benefits

The Banks's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised 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 recognised 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 recognised 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 recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.



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

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

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

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



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

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 recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised 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 honour 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 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 analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

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

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

i. 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 amortised 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>	2024				2023
Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1 – Pass	28,382,110	-	-	28,382,110	26,018,430
Stage 2 – Special mention	-	434,237	-	434,237	712,583
Stage 3 - Non performing	-	-	2,002,143	2,002,143	2,160,032
Total gross exposure	28,382,110	434,237	2,002,143	30,818,490	28,891,045
Loss allowance	(219,151)	(1,357)	(699,042)	(919,550)	(1,063,757)
Interest in suspense	-	-	(84,462)	(84,462)	(69,921)
Staff Loan Market Interest Adjustment	(612,223)	-	-	(612,223)	(411,309)
Net carrying amount	27,550,736	432,880	1,218,639	29,202,255	27,346,057

<i>In Birr'000</i>	2024			
Other financial assets (debt instruments)		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	3,108,343	(153)	3,108,190
Investment securities (debt instruments)	12 Month ECL	3,604,450	(180)	3,604,270
Other receivables and financial assets	Lifetime ECL	1,062,305	(294,259)	768,046
Totals		7,775,098	(294,592)	7,480,506



Berhan Bank S.C
Notes to the Financial statements

<i>In Birr'000</i>	2023				2022
Loans and advances to customers at amortised 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

ECL Movement

	Stage 1	Stage 2	Stage 3	Totals
ECL at 1 July 2023	194,483	4,364	864,911	1,063,757
Transfer to Stage 1	146,914	(2,406)	(144,508)	-
Transfer to Stage 2	(564)	712	(148)	-
Transfer to Stage 3	(1,860)	(683)	2,543	-
Net Remeasurement	(147,316)	217	(24,720)	(171,819)
ECL on new loans	178,321	251	4,224	182,796
ECL on derecognized loans	(150,826)	(1,098)	(3,259)	(155,184)
ECL at 30 June 2024	219,151	1,357	699,042	919,550

	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



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)
- 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



- o a backstop of 30 days past due,

Definition of default

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

- o 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);
- o The borrower is more than 90 days past due on any material credit obligation to the Bank.
- o 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
- o 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;

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

Incorporation of forward-looking information

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on quarterly basis.

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

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

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



Berhan Bank S.C
Notes to the Financial statements

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

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

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

Sector	Cluster	Macroeconomic factors	
Agriculture and Personal loans	1	Goods debit (Imports)	-
Domestic Trade & Services and Financial Intermediaries	2	-	-
Construction & Building and Manufacturing	3	Gross domestic product	current prices (U.S. dollars)
Export and Import	4	Goods debit (Imports)	-

The Bank defined a statistically significant correlation threshold with macroeconomic of 50%. No statistically significant correlation was observed for Cluster 2, as a result no macroeconomic adjustment is observed

The economic scenarios used as at 30 June 2024 included the following key indicators for Ethiopia for the years 2023 and 2024

Macro-Economic Variable	2023	2024
Goods exports, USD	4,393.0	4,740.0
Goods imports, USD	16,432.5	17,418.5
Nominal GDP, USD	130,088.6	144,653.2
Real GDP per capita, USD (2010 prices)	588.8	614.1

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.

The below scenario weightings have been observed:

Summary of scenario weightings			
Scenario	Base	Downturn (downside)	Optimistic (upside)
Cluster 1	100%	0%	0%
Cluster 2	100%	0%	0%
Cluster 3	92%	8%	0%
Cluster 4	100%	0%	0%



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 recognised as a new loan at fair value in accordance with the accounting policy set out.

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

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

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

8.2 Financial Instruments by Category

IFRS 9 contains three principal classification categories for financial assets: measured at amortised 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 2024	Notes	FVOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and Balances with Banks	17a	-	4,839,915	4,839,915
Loans and Advances to Customers	18	-	29,202,255	29,202,255
Due from Banks & Other Financial Institutions	19b	-	937,387	937,387
Equity Investments	19a	460,152	-	460,152
Bonds and Bills	20	-	3,604,270	3,604,270
Other Assets	20	-	1,550,695	1,550,695
Total Financial Assets		460,152	40,134,522	40,594,674

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

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 counter party/obligor and its likely future developments, credit history of the counterparty/obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out. Our credit exposure comprises wholesale and retail loans and advances which are developed to reflect the needs of our customers. The Bank's policy is to lend principally on the



basis of our customer's repayment capacity through quantitative and qualitative evaluation. However we ensure that our loans are backed by collateral to reflect the risk of the obligors and the nature of the facility.

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

(a) Probability of Default (PD)

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

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

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

The Bank uses computation of PD by amount.

(b) Loss Given Default (LGD)

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, 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 recognised 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 2024 and 30 June 2023 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash and Balances with Banks	4,839,915	3,732,724
Loans and Advances to Customers	29,202,255	27,346,058
Equity Investments	460,152	306,614
Bonds and Bills	3,604,270	3,833,003
Other Assets	1,550,695	1,253,266
	39,657,287	36,471,665
Credit Risk Exposures Relating to Off balance Sheets :		
Loan commitments	250,000	1,642,612
Guarantees issued and outstanding	6,644,301	3,068,344
Letter of credit and other credit related obligations	100,495	46,749
	6,994,796	4,757,705



Berhan Bank S.C
Notes to the Financial statements

Total maximum exposure	46,652,083	41,229,369
	30 June 2024	30 June 2023
	Birr'000	Birr'000
Pass	28,382,110	26,018,430
Special mention	434,237	712,583
Substandard	223,351	728,197
Doubtful	228,670	504,923
Loss	1,550,121	926,911
	30,818,490	28,891,045

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

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Agriculture	152,534	102,126
Transport	457,443	426,761
Hotel and Tourism	458,343	469,447
Health and Education Service	279,992	170,172
Import	3,285,482	2,983,816
Export	2,543,950	2,340,558
Manufacturing	3,708,946	3,435,175
Domestic trade and services	7,129,317	8,288,580
Building and construction	6,060,526	5,836,210
Personal loan	3,545,660	2,601,821
Staff loan	3,196,297	2,236,378
	30,818,490	28,891,045

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 2024 and 30 June 2023 have been classified as non-rated as there are no credit rating agencies in Ethiopia.

(b) Credit quality of loans and advances



Berhan Bank S.C
Notes to the Financial statements

The nonperforming (NPL) ratio of the bank is 6% as of June 30, 2024, by considering both principal and interest, which is reduced from 7% as of June 30, 2023. But the NPL ratio of the bank as of June 2024 is 4.98% when considering the total portfolio against the principal amount.

30 June 2024	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	Total Birr'000
Agriculture	141,221	3,197	8,116	152,534
Transport	372,224	-	85,218	457,443
Hotel and tourism	430,605	10,683	17,056	458,343
Health and Education Service	269,585	-	10,407	279,992
Import	3,214,838	12,631	58,013	3,285,482
Export	2,418,570	20,298	105,082	2,543,950
Manufacturing	3,566,312	71,840	70,794	3,708,946
Domestic trade and services	6,326,398	123,544	679,374	7,129,317
Building and construction	5,108,750	42,125	909,651	6,060,526
Personal loans	3,449,555	70,703	25,402	3,545,660
Staff loan	3,084,053	79,215	33,028	3,196,297
Gross	28,382,110	434,237	2,002,143	30,818,490
Less:				
Impairment allowance (note 18a)	(219,151)	(1,357)	(699,042)	(919,550)
Interest in suspense	-	-	(84,462)	(84,462)
Staff Loan Market Interest Adjustment	(612,223)	-	-	(612,223)
Net Loans and Advance	27,550,736	432,880	1,218,639	29,202,255

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



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 2024 Birr'000	30 June 2023 Birr'000
Neither past due nor impaired	28,382,110	26,018,430
Collective impairment	(219,151)	(194,483)
Loan and advances (net)	28,162,959	25,823,947

ii) Loans and advances - past due but not impaired

	30 June 2024 Birr'000	30 June 2023 Birr'000
Past due up to 30 days	434,237	712,583
Collective impairment	(1,357)	(4,364)
Loan and advances (net)	432,880	708,219

iii) Loans and advances - Impaired loans

	30 June 2024 Birr'000	30 June 2023 Birr'000
Impaired loans	2,002,143	2,160,032
Individual impairment	(699,042)	(864,911)
Net Carrying Amount	1,303,101	1,295,121

iv) Allowance for loan impairment

	30 June 2024 Birr'000	30 June 2023 Birr'000
IFRS Loan impairment charge	919,550	1,063,757
Total allowance for impairment	919,550	1,063,757

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 recognised in the income statement should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under the NBE directives and the expected impact/changes in 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 2024 Birr'000	30 June 2023 Birr'000
Total impairment based on IFRS	919,550	1,063,757
Total impairment based on NBE Directives	(991,647)	(1,044,163)
Excess(Shortage) Prudential Adjustments	(72,097)	19,594

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 2024 and 30 June 2023. The Bank concentrates all its financial assets in Ethiopia.

30 June 2024

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	-	-
Loans and advances	-	50,303	30,768,187	-
Investment securities	3,604,450	-	-	-
Investment in Equity	-	-	460,152	-
Loan commitments	-	-	250,000	-
	3,604,450	50,303	31,478,339	-



Berhan Bank S.C
Notes to the Financial statements

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	-

8.3.8 Nature of security in respect of loans and advances

30 June 2024	Building Birr'000	Building & Vehicle Birr'000	Share Certificate Birr'000	Vehicle Birr'000	Others Birr'000
Agriculture	92,012	4,434	43,577	10,723	1,789
Building, Construction & Real Estate	3,882,473	371,035	1,382	555,177	1,250,460
Domestic Trade and Services	5,422,107	700,017	23,171	907,703	73,103
Export	1,174,338	206,822	225,917	362,550	574,323
Health & Education	265,818	-	-	14,174	-
Hotel And Tourism	415,999	18,052	-	24,292	-
Import	2,379,846	186,052	273,580	283,659	162,345
Manufacturing	2,661,422	238,697	8,617	108,135	692,075
Personal	2,793,144	5,630	6,534	572,718	167,634
Transport & Communication	60,687	26,688	-	369,109	959
Other(Staff)	2,321,412	2,131	-	189,203	683,551
	21,469,258	1,759,558	582,778	3,397,442	3,606,239

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	6,420,135	418,663	15,132	1,188,198	136,028
Export	1,078,284	130,845	181,673	498,187	416,462
Health & Education	156,658	-	-	13,234	280
Hotel And Tourism	419,933	15,029	-	29,341	-
Import	2,196,637	75,662	270,398	370,901	62,341
Manufacturing	2,375,639	169,639	1,491	227,423	653,704
Personal	2,070,258	6,268	7,061	408,518	107,667
Transport & Communication	67,320	11,617	293	335,996	1,020
Other(Staff)	1,552,423	2,166	-	164,194	516,789
	19,959,224	1,010,794	484,344	4,013,919	3,009,974



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.

30 June 2024	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	3,316,697	737,044	1,105,566	1,474,088	30,218,798	36,852,193
Due to Banks & Other Institutions	578,018	-	-	-	-	578,018
Current tax liabilities	-	-	286,389	-	-	286,389
Margins held on letters of credit	-	567,992	-	-	-	567,992
Borrowings	-	-	-	-	-	-
Provisions	-	170,018	12,501	17,502	50,005	250,027
Retirement benefit obligations	682	1,365	2,047	2,730	129,661	136,485
Other liabilities	58,845	213,982	445,083	243,940	108,061	1,069,912
Deferred Tax Liabilities	-	-	-	-	67,295	67,295
Total financial liabilities	3,954,243	1,690,401	1,851,586	1,738,259	30,573,820	39,808,311

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



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.

(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 2024	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	1,161,580	-	3,678,335	4,839,915
Loans and advances	28,910,232	-	292,023	29,202,255
Investment securities	3,604,270	-	-	3,604,270
Total	33,676,082	-	3,970,358	37,646,440

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



(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 2024 was Birr 145.6million and 30 June 2023 Birr 219.5million.

Foreign currency denominated balances

	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash and bank balances	310,819	675,939
Deposits/Liabilities	456,485	456,434
Net Foreign currency denominated balances	(145,666)	219,505

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 2024 Birr'000	30 June 2023 Birr'000
USD cash at Foreign and Cash Balances	310,819	675,939
15% appreciation of Dollar	46,623	101,391
5% Depreciation of Dollar	(15,541)	(33,797)
	31,082	67,594

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/78/2021 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 2024 Birr'000	30 June 2023 Birr'000
Capital		
Capital contribution	3,447,898	3,350,433
Share Premium	16,372	15,847
Legal reserve	1,153,737	856,684
Other Reserve	310,080	206,983
Regulatory Risk Reserve	604,020	403,104
	5,532,107	4,833,050
Risk weighted assets		
Risk weighted balance for on-balance sheet items	26,889,096	28,042,056
Credit equivalents for off-balance Sheet Items	3,949,158	2,772,076
Total risk weighted assets	30,838,254	30,814,131
 Risk-weighted Capital Adequacy Ratio (CAR)	 18%	 16%
Minimum required capital	8%	8%
Excess	10%	8%

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 2024	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	4,840,068	-	4,840,068	-	4,840,068
Loans and advances	29,898,940	-	29,898,940	-	29,898,940
Investment securities	3,702,604	-	-	3,702,604	3,702,604
Total	38,441,612	-	34,739,007.96	3,702,604.00	38,441,611.96
Financial liabilities					
Deposits from customers	36,852,193	-	36,852,193	-	36,852,193
Other liabilities	1,069,912	-	1,069,912	-	1,069,912
Total	37,922,105	-	37,922,105	-	37,922,105



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	-	31,560,101	3,893,784	35,453,885
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

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.

9 Interest Income

	30 June 2024 Birr'000	30 June 2023 Birr'000
Interest on loans and advances	4,707,404	4,037,666
Interest on investment securities	284,135	251,474
Interest on deposits due from banks	120,615	102,393
	5,112,154	4,391,533

10 Interest Expense

	30 June 2024 Birr'000	30 June 2023 Birr'000
Interest on Demand deposits	(15,027)	(19,226)
Interest on Saving deposits	(1,151,210)	(1,073,164)
Interest on Time deposits	(521,216)	(333,279)
Interest on borrowings from domestic banks	(66,728)	(138,041)
Interest expense – Lease	(42,336)	(39,958)
	(1,796,517)	(1,603,668)



11 Fees and Commission Income

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Commission on letters of credit	164,607	88,156
Commission on CPOs, Cheques and FTs	1,365	1,670
Commission on guarantees	267,391	122,782
Fees Income	366,296	280,054
Commission on PO issuance	36,867	19,353
	836,526	512,015
Fee and commission expense :		
Fee and commission Expense	(79,807)	(76,842)
	(79,807)	(76,842)
Net fees and commission income	756,719	435,173

12 Other Operating Income

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Other income	236,728	39,700
Gain on foreign exchange	201,533	188,466
	438,261	228,166

13 Impairment losses on Financial Instruments

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Loan Impairment Charge	144,207	(207,763)
Impairment Loss-Other Financial Assets	(77,291)	(103,386)
	66,916	(311,149)

14 Personnel Expenses

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Short term employee benefits :		
Salaries	(1,220,871)	(1,061,522)
Staff allowances	(357,324)	(226,354)
Overtime	(23,033)	(20,386)
Bonus	(174,152)	-
Training and Education	(21,295)	(49,123)
Leave Payment	(15,751)	(21,313)
Pension costs – Defined contribution plan	(133,539)	(115,039)
Provident Fund – Defined contribution plan	(12,140)	(11,105)
Other staff expenses	(83,404)	(82,558)
	(2,041,509)	(1,587,400)



Long term employee benefits :		
Defined benefit plans-Severance	(34,772)	(28,870)
	(2,076,281)	(1,616,270)

15 Other Operating Expenses

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Utilities	(9,865)	(10,638)
Advertisement and promotions	(42,222)	(44,218)
Software Maintenance Fee	(43,049)	(40,141)
Sponsorship expenses	(3,742)	(4,763)
Communication expense	(16,004)	(19,012)
Postage and stamps	(368)	(325)
Stationery and office expenses	(63,212)	(87,863)
Legal and professional fees	(3,002)	(860)
Audit fees	(538)	(449)
Repairs and maintenance	(28,877)	(39,636)
Travelling expenses	(16,881)	(16,163)
Donations	(132)	(32,748)
Insurance	(132,102)	(25,717)
Entertainment	(6,113)	(6,834)
Fuel and lubricant	(8,570)	(10,081)
Miscellaneous expenses	(74,045)	(36,626)
License fees	(845)	(294)
Director fees	(1,220)	(1,270)
Fines and penalty	(2,784)	(546)
Loss on foreign exchange	(135,746)	(168,941)
Loss on Revaluation or Disposal	(2,595)	-
Impairment Loss - Property	(30)	(75)
Inventory Write-Down Expense	(589)	(15)
Impairment Loss on Assets Held for Sale	(45)	(100)
	(592,576)	(547,315)

- From birr 132 mill insurance expense, birr 98.9 mill includes Annual premium paid to Ethiopian Deposit insurance fund for the FY 2023/24.

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:



Berhan Bank S.C
Notes to the Financial statements

	30 June 2024 Birr'000	30 June 2023 Birr'000
Current income tax		
Charge for the year:	287,553	57,239
Prior year (over)/ under provision	-	21,952
Deferred income tax/(credit) to profit or loss	32,020	17,418
Total charge to profit or loss	319,573	96,609
Tax (credit) on other comprehensive income	(93,024)	(62,095)
Total tax in statement of comprehensive income	226,549	34,514

	30 June 2024 Birr'000	30 June 2023 Birr'000
Profit before tax	1,507,785	605,235
Add : Disallowed Expenses		
Entertainment	6,113	6,834
Donation	132	72
Sponsorship	3,742	4,763
Penalty	2,784	546
Awards	1,592	530
Accrued Leave Expense	15,751	21,313
Amortization of Right of Use asset	317,681	248,240
Interest Expense on Lease Liability	42,336	39,958
Impairment Loss - Property	30	75
Impairment Loss on Assets Held for Sale	45	100
Inventory Write-Down Expense	589	15
Provision for loans & other financial assets as per IFRS	(66,916)	311,149
Severance Expense	34,772	28,870
Net Gain on disposal of PPE-IFRS	(172,550)	-
Net Gain on disposal of PPE-Tax	194,263	-
Depreciation for IFRS accounting purpose	79,426	119,221
Amortization for IFRS accounting purpose	3,784	3,773
Cash Indemnity Allowance	13,378	10,296
Employee Interest rate Benefit-IFRS	(34,040)	(24,562)
Employee Interest rate Benefit-Tax	174,052	118,652
Loss On Lease Modification	4	-
	616,968	889,845

Less :		
Depreciation for tax purpose	246,215	203,991
Amortization of Prepaid Rent and Lease	340,421	267,448
Provision for loans & other financial assets for tax NBE 80%	132,705	443,363
Severance Paid	13,026	17,963
Leave Paid	4,927	8,962
Interest income taxed at source- foreign	7,580	2,825
Dividend income taxed at source	18,063	5,844



Berhan Bank S.C
Notes to the Financial statements

Interest income taxed at source-NBE Bills and T-Bills	284,135	251,474
Interest income taxed at source-Local Deposit	113,035	99,568
Gain from reversal of impairment allowance	71	157
Cash Indemnity Allowance Paid	7,325	3,117
Gain On Lease Modification	4	42
	1,167,508	1,304,754

Taxable profit	957,245	190,326
Current tax at 30%	287,174	57,098
5% on interest on foreign deposits	379	141
Total tax in statement of comprehensive income	287,553	57,239

Average Effective Tax Rate:	19.07	9.46
------------------------------------	--------------	-------------

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

16b Current income tax liability

	30 June 2024 Birr'000	30 June 2023 Birr'000
Balance at the beginning of the year	79,077	94,538
Charge for the year	287,553	57,239
Capital gains tax	-	-
Income tax expense	-	-
Prior year (over)/ under provision	-	21,952
WHT Notes utilized	(1,164)	(115)
Payment during the year	(79,077)	(94,538)
Balance at the end of the year	286,389	79,077

16c

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
--	--------------------------	--------------------------

The analysis of deferred tax assets/(liabilities) is as follows:

To be recovered after more than 12 months	(67,295)	(35,275)
To be recovered within 12 months	-	-
	(67,295)	(35,275)



Berhan Bank S.C
Notes to the Financial statements

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 2023 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2024 Birr'000
Property, plant and equipment	65,813	42,427	-	108,240
Provisions	-	-	-	-
Unrealized exchange gain	-	-	-	-
Tax losses charged to profit or loss	-	-	-	-
Post-employment benefit obligation	(30,539)	(10,407)	-	(40,946)
Total deferred tax assets/(liabilities)	35,275	32,020	-	67,295

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	-	-	-	-
Unrealized 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

17 Cash and Cash Equivalents

17a Cash and balances with banks

	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash in hand local currency	1,707,309	1,746,191
Cash in hand foreign currency	24,416	22,110
Placement with other Institutions	1,478,983	988,752
Deposits with foreign banks	286,403	653,829
Balance held with National Bank of Ethiopia	1,342,957	321,931
Gross amount	4,840,068	3,732,813
Less :		
Allowance for Impairment- Bank Balances	(153)	(89)
	4,839,915	3,732,724



Berhan Bank S.C
Notes to the Financial statements

<i>Maturity analysis</i>	30 June 2024 Birr'000	30 June 2023 Birr'000
Current	2,290,368	1,322,113
Non-Current	2,549,700	2,410,700
	4,840,068	3,732,813

17b Due from Banks & Other Financial Institutions:

	30 June 2024 Birr'000	30 June 2023 Birr'000
ATM Settlement-Off Us	255,951	211,913
Cheque Clearance-Outward	2,655	5,459
Foreign Currency Receivable	191,831	55,862
Mobile Fund Transfer-Off Us	486,950	3,446,685
	937,387	3,719,919

17c Restricted Fund Balance

	30 June 2024 Birr'000	30 June 2023 Birr'000
Restricted Fund Balance	2,549,700	2,410,700

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

18 Loans and Advances

18a Loans and advances to customers

	30 June 2024 Birr'000	30 June 2023 Birr'000
Agriculture	152,534	102,126
Building and construction	5,640,130	5,477,570
Domestic trade and services	6,272,772	7,625,159
Export	1,426,388	1,169,467
Hotel and Tourism	410,348	425,279
Health and Education Service	245,060	159,851
Import	1,897,053	1,898,018
Manufacturing	2,822,610	2,881,224
Merchandise Loans	135,205	40,790
Overdrafts	3,651,249	2,703,459
Personal loan	3,545,679	2,601,839
Pre-shipment	994,823	1,149,898
Staff loan	3,196,297	2,236,378
Transport	428,342	419,987



Berhan Bank S.C
Notes to the Financial statements

Gross amount	30,818,490	28,891,045
Less: Impairment allowance (note 18b)		
Collective impairment		
Stage 1	(219,151)	(194,483)
Stage 2	(1,357)	(4,364)
Stage 3	(699,042)	(864,911)
	29,898,940	27,827,288
Less :		
Interest in suspense	(84,462)	(69,921)
Staff Loan Market Interest Adjustment	(612,223)	(411,309)
Net Loan Balance	29,202,255	27,346,058

Maturity analysis	30 June 2024	30 June 2023
	Birr'000	Birr'000
Current	9,553,732	8,956,224
Non-Current	21,264,758	19,934,821
	30,818,490	28,891,045

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:

- 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



Berhan Bank S.C
Notes to the Financial statements

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 2023 Birr'000	Charge for the year Birr'000	30 June 2024 Birr'000
Allowance For Impairment - Agriculture	(661)	(133)	(794)
Allowance For Loan Impairment - Building & Construction	(630,992)	46,831	(584,161)
Allowance For Loan Impairment - DTS	(164,711)	45,881	(118,830)
Allowance For Loan Impairment - Export and Imports	(118,486)	83,300	(35,186)
Allowance For Loan Impairment - Manufacturing	(4,832)	(3,077)	(7,909)
Allowance For Loan Impairment - Personal	(6,695)	(8,598)	(15,293)
Allowance For Loan Impairment - merchandise loans	(177)	(602)	(779)
Allowance For Loan Impairment - Preshipment loans	(49,245)	(5,007)	(54,252)
Allowance For Loan Impairment - Overdrafts	(87,939)	(14,385)	(102,324)
Allowance For Loan Impairment - Emergency staff loans	(18)	(5)	(23)
Total - Collective Impairment	(1,063,756)	144,205	(919,551)

<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 & 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 - Preshipment 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)



19 Investment Securities

	30 June 2024 Birr'000	30 June 2023 Birr'000
19a Bonds and Bills	3,604,450	3,833,127
Less:		
Allowance for impairment - Bills & Bonds	(180)	(124)
Net Bond and Bills	3,604,270	3,833,003
19b Equity Investments	98,154	60,657
Fair Value Adjustment – Equity Investments	361,998	245,957
Net Equity Investments	460,152	306,614

Maturity analysis	30 June 2024 Birr'000	30 June 2023 Birr'000
Current	3,604,270	3,833,003
Non-Current	460,152	306,614
	4,064,422	4,139,617

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 2024 Birr'000	Number of shares	% owned as per the Bank	Amount invested in '000	Fair Value as per IFRS 9
Ethswitch S.C.	68,379	3.88%	68,379	388,979.80
Berhan Insurance S.C.	18,259	5.40%	18,259	26,033.43
Premier Switch Solution S.C	9,849	4.08%	9,849	43,620.42
Debo Micro Finance S.C.	1,667	2.19%	1,667	1,518.09
Total Equity Investments				460,152



Berhan Bank S.C
Notes to the Financial statements

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

20 Other assets

	30 June 2024 Birr'000	30 June 2023 Birr'000
Financial assets		
Other Receivables	1,062,305	945,735
	1,062,305	945,735
Non-financial assets		
Prepayments	61,139	38,209
Prepaid Staff Benefits	721,510	486,557
	782,649	524,766
Gross amount	1,844,954	1,470,501
Less :		
Impairment allowance for Other assets	294,259	217,235
Net amount	1,550,695	1,253,266

Maturity analysis	30 June 2024 Birr'000	30 June 2023 Birr'000
Current	465,209	375,980
Non-Current	1,085,487	877,286
	1,550,695	1,253,266

20a Impairment Allowance on Other Assets

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Balance at the beginning of the year	217,235	113,928
(Reversal)/charge for the year	77,024	103,307
Balance at the end of the year	294,259	217,235



20b Inventory

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Sundry materials	49,178	29,415
Check books	9,469	5,167
Stationary	19,232	17,731
Printed materials	73,619	24,688
Draft and CPO	1,143	1,179
Revenue stamp	67	74
Gross amount	152,708	78,254
Less:		
Allowance for Inventory Write-Down	(664)	(75)
	152,044	78,179

20c Non-Current Assets Held for Sale

	30 June 2024 Birr'000	30 June 2023 Birr'000
Assets Held for Sale	215,181	58,536
Less:		
Allowance for Impairment Assets Held for Sale	(540)	(495)
	214,641	58,041

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.



23 Property and equipment

	Buildings	Motor vehicles	Office & other equipment	Furniture & fittings	Computer & 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 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 amortisation & impairment losses							
As at 01 July 2022	2,939	67,954	125,993	54,832	65,103	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	78,666	173,004	82,814	97,241	707,234	1,143,181
As at 01 July 2023	70,614	501,258	473,085	322,124	273,532	1,800,449	3,441,063
Additions	-	-	132,633	49,754	77,853	389,487	649,726
Disposals	(12,950)	(50,791)	(12,908)	(5,783)	(6,074)	-	(88,508)
Reclassification	-	-	-	-	-	-	-
As at 30 June 2024	57,664	450,466	592,809	366,096	345,311	2,189,936	4,002,282
Accumulated amortisation & impairment losses							
As at 01 July 2023	4,222	78,666	173,004	82,814	97,241	707,234	1,143,181
Charge for the year	643	22,797	29,909	9,219	16,858	317,681	397,107
Impairment Loss	-	-	(16)	(55)	30	-	(42)
Disposals	(940)	(24,557)	(10,092)	(3,262)	(4,508)	-	(43,360)
As at 30 June 2024	3,925	76,905	192,804	88,715	109,621	1,024,916	1,496,886
Net book value							
As at 30 June 2023	66,392	422,592	300,082	239,311	176,292	1,093,215	2,297,882
As at 30 June 2024	53,739	373,561	400,006	277,380	235,690	1,165,020	2,505,395

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

	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories
As at 30 June 2023	1,361	35	0.3	-
As at 30 June 2024	4,145	712	747.3	296.89



Berhan Bank S.C
Notes to the Financial statements

24 Liabilities

24a Due to Banks & Other Institutions

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Cheque Clearance-Inward	7,905	9,193
ATM Settlement-On Us	103,839	98,243
Mobile Fund Transfer-On Us	466,274	3,410,972
	578,018	3,518,408

24b Deposits from Customers

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Demand deposits	12,078,453	8,949,876
Savings deposits	20,979,921	21,770,027
Time deposits	3,793,819	3,062,391
	36,852,193	33,782,294

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Borrowings	-	559,028

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Margins held on letters of credit	567,992	365,273

24c Other Liabilities

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Financial Liabilities		
Banking instruments payables	71,754	219,716
Unearned Income	72,370	41,842
Lease liability	508,846	459,574
Total Financial Liabilities	652,970	721,132
Non-Financial Liabilities		
Tax and Other Obligations	54,474	54,800
Sundry payables	362,468	733,644
Total Non-Financial Liabilities	416,942	788,444

Total Financial and Non-Financial Liabilities	1,069,912	1,509,576
--	------------------	------------------



Breakdown of Tax and Other Obligations:

	30 June 2024 Birr'000	30 June 2023 Birr'000
Employer Pension Cont	6,533	8,987
Income Tax Payable	21,760	23,784
Stamp Duty Charges	12,798	4,787
Income Tax on Savings Interest	6,651	7,277
Withholding Tax-Local	1,392	1,356
Value Added Tax-Vat Payable	589	1,713
Withholding Tax -Technical Service-Abroad	101	674
Cost Sharing Expense Payable	9	-
Reverse Taxation Payable	512	532
Employee Pension Cont	4,129	5,643
Royalty Tax	-	47
	54,474	54,800

24d Provisions

	30 June 2024 Birr'000	30 June 2023 Birr'000
Leave Pay	75,876	65,052
Bonus Payable	174,151	-
	250,027	65,052

24e Retirement Benefit Obligations

		30 June 2024 Birr'000	30 June 2023 Birr'000
Defined benefits liabilities:			
	Note 24		
Severance pay	(f)	136,485	101,795
Liability in the statement of financial position		136,485	101,795
Income statement charge included in personnel expenses:			
	Note		
Severance costs	24(f)	34,772	28,870
Total defined benefit expenses		34,772	28,870
Remeasurements for:			
	Note		
Remeasurement gains/(losses)	24(f)	(12,944)	(16,151)
		(12,944)	(16,151)



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

<i>Maturity analysis</i>	30 June 2024 Birr'000	30 June 2023 Birr'000
Current	16,378	13,093
Non-Current	120,107	88,702
	136,485	101,795

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 recognised in the financial statements:

	30 June 2024 Birr'000	30 June 2023 Birr'000
A Liability recognised in the financial position	136,485	101,795
B Amount recognised in the profit or loss		
Current service cost	12,557	10,188
Interest cost	22,215	18,682
	34,772	28,870

24g Retirement Benefit Obligations (Contd) Amount recognised in other comprehensive income:

Actuarial (Gains)/Losses on economic assumptions	8,796.00	8,560.00
Actuarial (Gains)/Losses on experience	4,148.00	7,591.00
	12,944	16,151

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



	30 June 2024 Birr'000	30 June 2023 Birr'000
(Liability)/Asset at beginning of period	101,795	74,737
(Expense)/Income recognised in OCI	4,148	7,591
(Expense)/Income recognised in Profit and Loss	34,772	28,870
Remeasurement (gains)/ losses	8,796	8,560
Benefits paid	(13,026.00)	(17,963.00)
At the end of the year	136,485	101,795

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2024 Birr'000	30 June 2023 Birr'000
Discount rate (p.a)	18.70%	20.60%
Inflation Rate	14.30%	15.10%
Long term salary Increase rate (p.a)	16.30%	17.10%

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 2024 Birr'000	30 June 2023 Birr'000
Authorized:		
Ordinary shares of Birr 1,000 each	3,447,898	3,350,433
Issued and fully paid:		
Ordinary shares of Birr 1,000 each	3,447,898	3,350,433
Share Premium (Net of tax)	16,372	15,847

As at 30 June 2024, the Authorized share capital of the Bank comprised of 3,447,898 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 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	196,394	235,631
Profit / (loss) for the year	1,188,212	508,626
Transfer to legal reserve	(297,053)	(127,157)
Dividend provided for / paid	(196,394)	(235,631)
Director's Share of Profit	-	(1,425)
Prior Period Tax Expense	(9,154)	(34,918)
Transfer to Regulatory Risk Reserve	(213,470)	(148,733)
Transfer from Regulatory Risk Reserve	12,553	-
At the end of the year	681,088	196,394

27 Legal Reserve

	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	856,684	729,527
Transfer from profit or loss	297,053	127,157
At the end of the year	1,153,737	856,684



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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(51,918)	(38,974)
Movement in fair value reserve-equity instruments	361,998	245,957
	310,080	206,983
Income tax relating to Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(15,575)	(11,692)
	(15,575.40)	(11,692.20)
Net Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(36,343)	(27,282)
	(36,343)	(27,282)
Income tax relating to Other comprehensive income :		
Movement in fair value reserve-equity instruments	108,599	73,787
	108,599	73,787
Net Other comprehensive income :		
Movement in fair value reserve (equity instruments)	253,399	172,170
	253,399	172,170

	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the Year	403,104	254,371
Transfer from/to Retained Earning-Loan Provision	72,097	-
Transfer from/to Retained Earning-Receivable Provision	141,373	86,804
<i>Net regulatory risk reserve-Suspended Interest</i>	<i>(12,553)</i>	<i>61,929</i>
At the end of the Year	604,020	403,104

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 2024 Birr'000	30 June 2023 Birr'000
Net profit attributable to ordinary equity holders		1,188,212	508,626
Weighted average number of ordinary shares		3,391,670	3,256,697
Basic Earnings per share of Birr 1,000		350.33	156.18
Retained earnings balance available for distribution to ordinary equity holders	24	681,088	196,394
Weighted average number of ordinary shares		3,391,670	3,256,697
Net Basic Earnings per share of Birr 1,000		200.81	60.30

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 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 2024 Birr'000	30 June 2023 Birr'000
<i>Companies associated with directors</i>		
At the beginning of the year	239,125	109,470
Net movement during the year	5,346	129,655
At the end of the year	244,471	239,125
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 2024 Birr'000	30 June 2023 Birr'000
<i>Directors</i>		
At the beginning of the year	83,411	59,918
Net movement during the year	13,644	23,493
At the end of the year	97,055	83,411
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 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	1,627	7,185
Net movement during the year	(8,757)	(5,559)
At the end of the year	(7,130)	1,627



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 2024.

	30 June 2024 Birr'000	30 June 2023 Birr'000
Salaries and other short-term employee benefits	44,371	44,405
Post-employment benefits	-	-
Termination benefits	-	-
Sitting allowance	3,146	2,848
Other expenses	58	301
	47,575	47,553

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

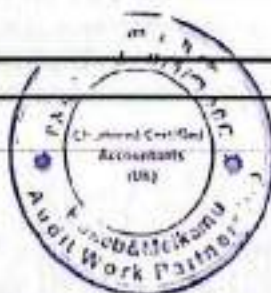
31d Directors and Employees

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

	30 June 2024 In Number	30 June 2023 In Number
Professionals and High Level Supervisors	24	20
Semi-professional, Administrative and Clerical	321	388
Technician and Skilled	-	-
Manual and Custodian	64	108
	409	516

- 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 2024 In Number	30 June 2023 In Number
25,000 - 40,000	539	381
40,001 - 60,000	276	266
60,001 - 100,000	123	59
Above 100,000	6	5
	944	711



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 2024 is Birr 87 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 High Court 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 2024.

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 2024 Birr'000	30 June 2023 Birr'000
Guarantees issued and outstanding	6,644,301	3,068,344
Commitments on letters of credit net of margin paid	100,495	46,749
Loans approved but not disbursed	250,000	1,642,612
	6,994,796	4,757,705

33 Commitments

The Bank has commitments, not provided for in these financial statements, as of 30 June 2024 Birr 78.5 million (30 June 2023: Birr 170.8 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	1,093,214.73	865,142
Depreciation charge for the year	(317,681)	(248,240)
Additions	389,487	476,313
Balance at 30 June	1,165,020	1,093,215

ii. Amounts recognised in profit or loss

<i>In millions of ETB</i>	30-Jun-24	30-Jun-23
Interest on lease liabilities	(42,336)	(39,958)

iii. Amounts recognised in statement of cash flows

<i>In millions of ETB</i>	30-Jun-24	30-Jun-23
Total cash outflow for leases	(75,927)	(62,369)

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 2024 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

