Baankii Gadaa
New Generation's Bank
ገዳ ባንክ
GadaaBank

ANNUAL REPORT

2023/24

የአዲሱ ትውልድ ባንክ
The New Generation's Bank

VISION

To Inspire and Enable Your Dreams

MISSION

We are committed to deliver superior and customer -centric full-fledged banking services to our community in a friendly environment by deploying competent employees and art –of –technology, whilst optimizing shareholders value.”

OUR CORE VALUE

GROWTH MINDSET

- Innovative
- Hard worker
- Higher achievement

APPROACHABLE

- Friendly
- Partner
- Easy of doing

DIVERSITY

- Inclusive
- Respectful
- Participatory

ACCOUNTABILITY

- Professionalism
- Reliable
- Transparent

ACCESSIBILITY

- Reachable
- Digitalized
- Affordable

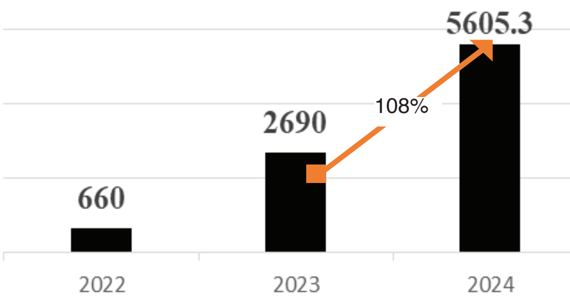
2nd Ordinary and extra ordinary Shareholders General Assembly Meeting on December 15, 2023 G.C @Millennium Hall, Finfinne

GADAA SAVING

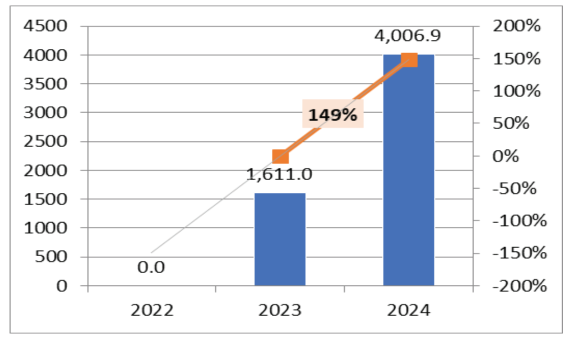
Conventional
SPECIAL ACCOUNTS

At a Glance

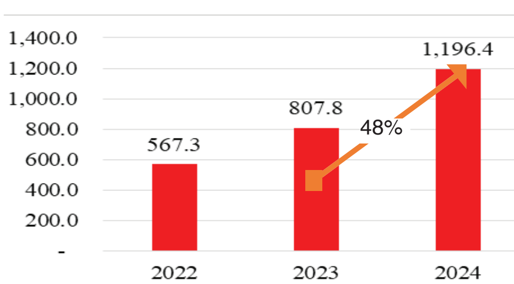
Assets (in Millions Birr)



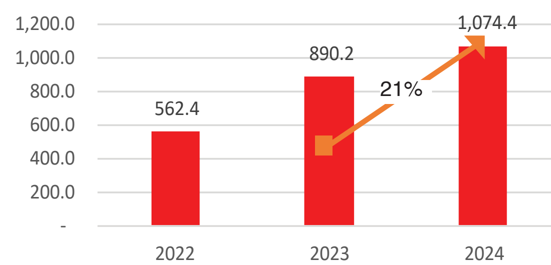
Deposit (in Millions Birr)



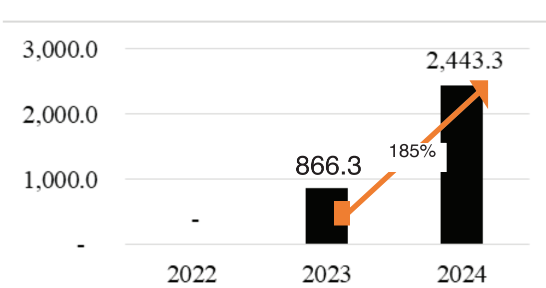
Total Capital (in Millions Birr)



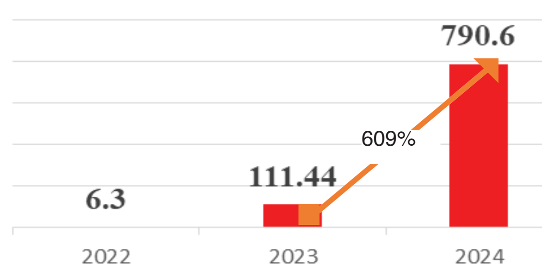
Paid-up Capital (in Millions Birr)

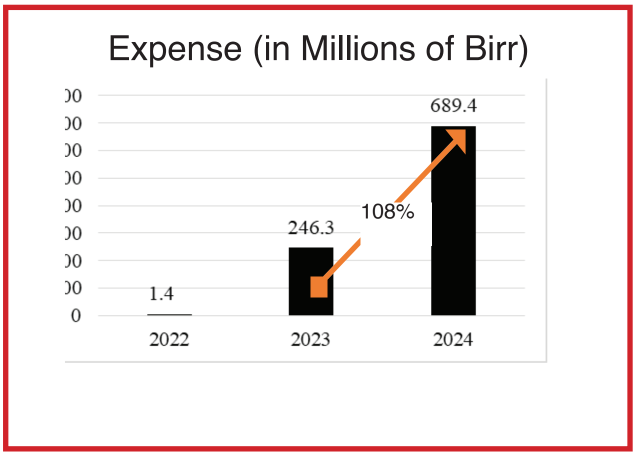


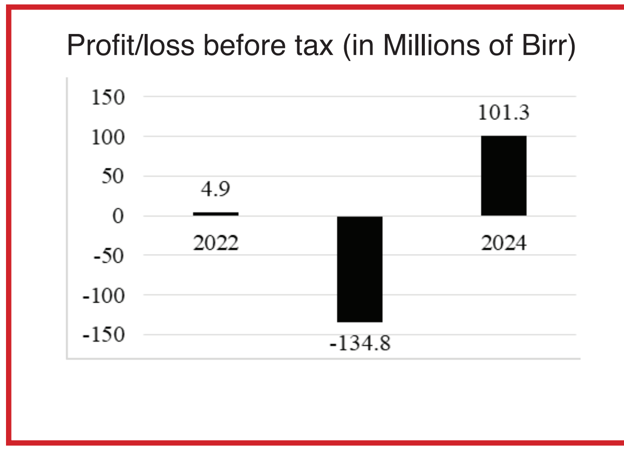
Loan and Advance (in Millions Birr)

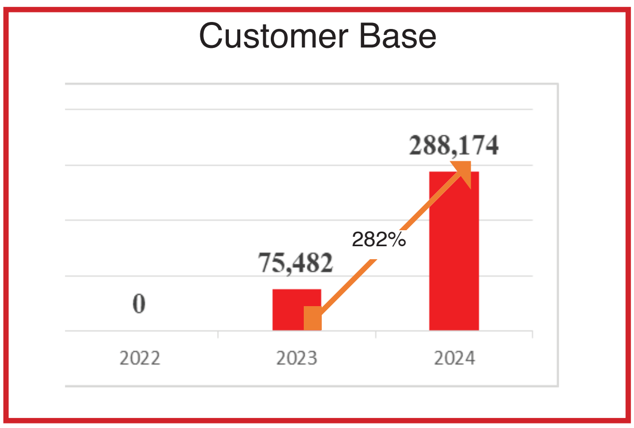


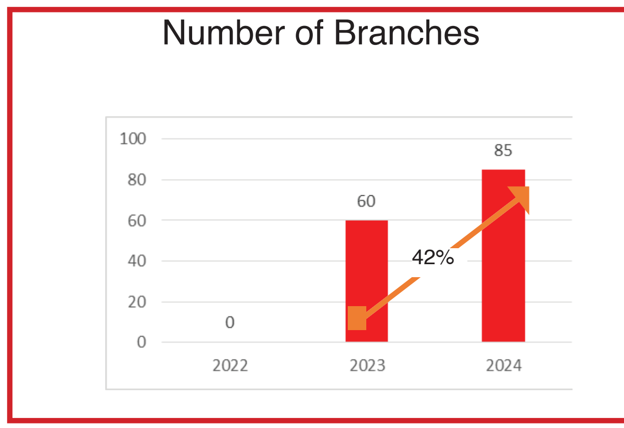
Income (in Millions Birr)



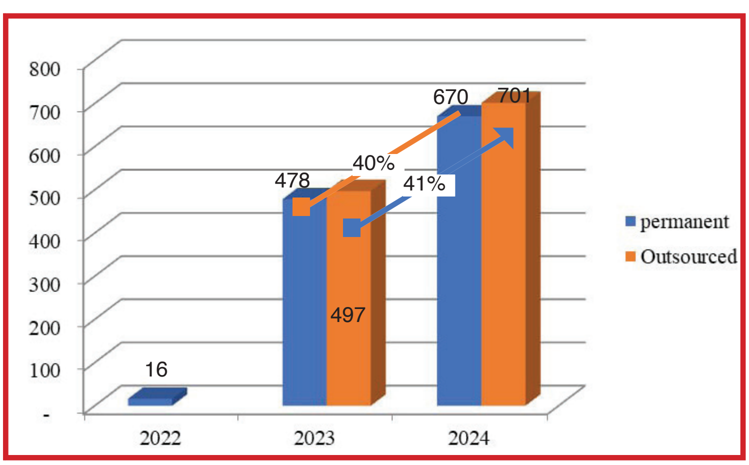

Expense (in Millions of Birr)
0
1.4
246.3
689.4
108%
2022
2023
2024


Profit/loss before tax (in Millions of Birr)
150
100
50
0
-50
-100
-150
4.9
-134.8
101.3
2022
2024


Customer Base
0
75,482
288,174
282%
2022
2023
2024


Number of Branches
100
80
60
40
20
0
0
60
85
42%
2022
2023
2024

HR Strength


800
700
600
500
400
300
200
100
-
16
478
497
670
701
40%
41%
2022
2023
2024
permanent
Outsourced

WHO WE ARE

Our Purpose

"Empowering the community to realize its full potential through financial growth and nurturing prosperity with trusted banking solutions."

Our Strategy

Boldly reinforces our ambition to be a powerful enabler that enhances our generation's capabilities through a strong focus on:

- customer-centricity,
- cutting-edge digitalization,
- talented human capital, and
- strategic partnerships.

Our Enablers

- Seamless Digital Service
- Embedded Gadaa Ideology
- Dedicated Human Capital
- Our Strategic Alliance
- The Community we are Dedicated to Serving

Our Strategic Themes

Customer Centric

- Satisfied customer
- Enhanced digital customer experience,
- High responsiveness

Talented Human Capital

- Motivated and engaged workforce
- High productivity
- Competent expertise

Strategic Alliance

- Strong and long-lasting partners
- Wide customer base
- High reputation and good will

Digitalization

- Simple,
- Efficient
- Integrated multichannel
- Robust IT risk management

Sustainable Growth

- Large customer base
- Wide accessibility
- Strong financial position,
- Large market share
- Cost conscious culture

Our Strategic Objectives

Financial

- Increase Resource Mobilization
- Ensure Sustainable Profitability
- Ensure Financial Soundness
- increase Resource Allocation

Customer

- Expand Customer Base
- Increase Customer Satisfaction
- Enhance Digital Customer Experience

Internal Business Process

- Increase Accessibility of Services
- Enhance Process Efficiency and Effectiveness
- Ensure prudent Risk Management and Compliance
- Ensure Product Diversification and Price Differentiation
- Enhance marketing and sales

Learning &Growth

- Improve Employee Satisfaction and Engagement
- Enhance Employee and Leadership Competencies
- Improve Employees' Productivity
- Enhance Information Capital

CONTENTS

Message of Board of Directors' Chairman....1
Message from the CEO....3
Shariah Advisory committee (SAC)....8
BOARD OF DIRECTORS' REPORT....10
1. Major Macroeconomic Highlights of 2023/24FY....11
 1.1. Global Economy....11
 1.2. Domestic Socioeconomic....11
 1.3. Banking Industry....12
2. Major Operational Consideration for the Fiscal Year....13
3. Operational Performance....14
 3.1. Deposit Mobilization....14
 3.2. Customer Base....16
 3.3. Branch Expansion....16
 3.4. Credit Performance....18
 3.5. International Banking Performance....19
 3.6. Interest Free Banking Services....20
 3.7. Digital Banking....20
 3.8. Income....21
 3.9. Expense....21
 3.10. Profitability....22
 3.11. Balance Sheet....22
4. Human Resource Management....23
5. Our Investment....24
6. Environment, Social, and Governance (ESG)....24
 6.1. Corporate Social Responsibility....25
7. Corporate Governance....26
 7.1. The bank's Memorandum of Association....26
 7.2. Gadaa bank's Organizational structure....26
 7.3. Board of Directors composition and size....28
 7.4. Structure of the Board....28
 7.5. The Functions of the Board....28
 7.6. Board, Its Sub-committees and Individual Directors' Performance Evaluation....29
8. Risk Management, Control and Audit....29
9. Summary of Board of Directors Performance In 2023/24....29
10. Gadaa Bank's Business Outlook for the Next Few Years to Come....30
11. Vote of Thanks....32
AUDITORS' REPORT....36

Board of Directors

Dr. Hassen Hussien Kedir
Board Chairperson

Obbo Hailu Ifa Gonda
Vice Board Chairperson and Chair of Nomination and Remuneration Committee

Obbo Alazar Adula Yatene
Board Member and Chair of Risk management & Compliance Committee

Dr. Degefe Duressa Obo
Board Member and Chair of Audit Committee

Obbo Wasihun Amenu Tiyiti
Board Member

Obbo Hamdeno Mideso woya
Board Member

Dr. Gutu Tesso Boka
Board Member

Obbo Shiferawu Rufe Bede
Board Member

Adde Semira Abdella Mohammed
Board Member

Eng. Abdo Geleto Anota
Board Member

Dr. Berhanu Assefa Demissie
Board Member

Obbo Galata Daba Afata
Company Secretary

Management Team

Obbo Wolde Bulto
Chief Executive Officer

Obbo Fati Haji
Chief Information Technology Officer

Obbo Eshetu Deressa
Cheif– Customer Experience Officer

Obbo Dereje Mengistu
Chief Risk Management and Compliance

Obbo Legesse Jada
Chief Internal Audit

Obbo Debebe Feyissa
Ex. Director Strategy & Research

Obbo Abduljebar Kedir
Ex. Director – IFB

Obbo Ifa Abdissa
Ex. Director – Digital Banking

Obbo Ulfata Regassa
Director – Human Capital Management

Adde Tenaye Aklilu
Director – Finance Management

Obbo Milky Tenkolu
Director – International Banking Department

Obbo Fikadu Urgessa
Director – Procurement and Facilities Management

Obbo Muleta Debela
Director - Legal Services

Obbo Robera Wakgari
Director – Credit

Obbo Gudeta Gelana
Director – Personal & SME Banking

Obbo Fetene Alemu
Director – Promotion and Public Relationship

Adde Sebasegel Seyoum
Director – Corporate and Institutional Banking

Obbo Fedessa Woreti
Director – IT system Security

Obbo Djorji Tone
Director – IT Infrastructure & Project Management

Obbo Yirgalem Teshome
Director – Information Technology

Message of Board of Directors Chairman

Message of Board of Directors' Chairman

Dear shareholders of Gadaa Bank S.C, Board of Directors, management and staffs, honorable guests, representatives of the NBE and Document Authontication and Registration service (DARS), and all other stakeholders; it is with great pleasure that I welcome you to the 3rd Annual General Meeting of Gadaa Bank SC.

It is my pleasure to present Gadaa Bank's 3rd annual report for 2023/24FY. I am proud to have participated in and directed the bank's incredible journey to get where it is now.

Dear honorable shareholders;

Before I present the performance of the Bank, I would like to briefly reflect with you the present macroeconomic and banking scenarios.

Global economy has been continued with resilience and extensive monetary measures, posing a distinct challenge that exceeds the economic downturns observed in several decades during the concluded fiscal year. Countries were struggling to recover from conflicts and supply chain disruptions. Geopolitical risks and commodity market uncertainties have increased due to the recent Middle East crisis, which has a negative impact on global GDP as well as on Ethiopian international trade.

Gadaa Bank has been in operation for the last one year and six months, despite the fact that the last twelve months of 2023/24FY have been characterized by notable challenges like social unrest, NBE's recently employed decision on credit, high business dynamism and dynamic regulatory changes, and uncertainties from global aspects that have affected business activities, specifically the banking sector.

Ongoing effects of tight monetary policy in various economies, restrictive financial conditions, a withdrawal of fiscal support amid high debt weighing on economic activity, low productivity growth, weak global trade, and investment, as well as continued geopolitical tensions in various regions of the world, have contributed significantly to downside outlooks.

Dear honorable shareholders and guests;

Your commitment and support are what drive our success. The bank has been engaged in several activities directed at smoothing its operations, building its image, enlarging its branch accessibility, enhancing employees' capabilities, and digitalizing banking solutions in line with its strategic foundation.

The bank has managed to open 85 (Eighty Five) branches both in Finfinne and outlying areas to enlarge its presence throughout the country as of 30th June 2024. Struggling in the fierce competition of the industry, Gadaa Bank has placed a special emphasis on deposit mobilization during the fiscal year, similar to how it did in its first six months of operation last year. The total deposits of the Bank stood at Birr 4.01 billion at the end of 30th June 2024. This performance shows that the bank has successfully penetrated the market and is positioning itself in the market.

The Bank's total income as of 30th June 2024 amounted to Birr 790.6 million while the total expense of the Bank reached 689.4 million as at of 30th June 2024. The profit of the Bank before tax reached Birr 101.3 million during the fiscal year.

Moreover, we have consistently demonstrated our commitment to the social responsibilities of the communities in which we operate, with a strong focus on social wellbeing, financial inclusion, and environmental initiatives. We devoted resources towards various impactful projects and sponsorships spanning various initiatives during the year.

Looking ahead, we are excited about our strategic vision for the upcoming year. Our focus will be on innovation, market expansion, or enhancing customer experience. We believe these initiatives will position us well in a competitive landscape.

Finally, I want to express my gratitude once again for your support and dedication. Together, we are building a bright future for our Bank. I would like to recognize our customers for their continued support and doing business with us. I also appreciate and thank our many other partners and supporters who have contributed greatly to our success. I salute our management and staff for their dedication, diligence and commitment to the success of the Bank.

The future of our Bank depends on our collective efforts and shared vision. Together, we can overcome challenges and seize the opportunities that lie ahead.

In closing, on behalf of the Board of Directors, I say to you all, thank you and I look forward to what we will accomplish in the coming fiscal year.

Kind regards,

Dr. Hassen Hussien

Chairperson Board of Directors

Galatoomaa!

Gadaan Quufaa Gabbina!

Message from the CEO

Dear Respected Shareholders of Gadaa Bank:

I am pleased and honored to present performance of Gadaa Bank for the fiscal year 2023/24. Our performance of the period is historical for our bank as it is the first fiscal year in which our bank has been in operation for the whole months of the year. Hence, it is with great pleasure and pride that I present the annual report of the fiscal year for our key stakeholders. This period marks the beginning of our exciting journey as a start-up and I am truly grateful to share our journey and achievements with you. I want to take a moment to acknowledge the trust you have placed in Gadaa Bank.

Despite the challenges we faced in the fiscal year, we have successfully met our business objectives and have made significant strides in the Ethiopian banking industry. Remarkably, we have started making profit. Congratulations! I am grateful to lead our talented team on this incredible journey.

Dear Honorable Shareholders and Guests

The global economic landscape has shown resilience, yet it has not been without difficulties. We find ourselves in a time where challenges abound, challenges that many have not experienced in decades. Economic activity still trails behind pre-pandemic growth levels, which averaged 3.8%. According to the IMF (July 2024), we anticipate a decline in growth from an estimated 3.3% in 2022 to 3.2% in 2024. Geopolitical conflicts and uncertainties in commodity markets, particularly due to the recent Middle East crisis, pose potential obstacles not only to global GDP but also to Ethiopia's international trade. However, we have seen some encouraging signs, as inflation is decreasing more quickly than expected in many countries. Global headline inflation is forecasted to drop from 9.2% in 2022 to 5.9% in 2024, and further to 4.4% in 2025 (IMF, April 2024).

Ethiopian economy has remained in growth trend despite a number of challenges, including a lack of security and conflict in the some parts of the country, worsening foreign exchange shortages, drought and flood occurrences, and spillovers from the war in Ukraine as well as between Israel and Palestine. The rising general price level has weakened the socioeconomic activities, exacerbating the problem. During the fiscal year, banking industry has been operating under difficult conditions, mainly to instability and social unrest in some parts of the country, as well as lower business and global financial tightening, which exacerbated supply-chain disruption. In domestic arena, all commercial banks strive to compete for provision of similar services and share the same market and resources with stiff competition.

In light of these global and domestic challenges as well as ongoing stiff competition in the banking industry, I want to commend our team and our shareholders for the extraordinary effort that has gone into the effective and efficient operational continuity of Gadaa Bank. The months leading up to our opening were filled with careful planning and determination, as we aimed to position ourselves to provide efficient and effective banking services right from the beginning. Then onward during the fiscal year 2024/25, we worked diligently on initiatives that included building a quality service delivery system, nurturing a supportive and enthusiastic corporate culture, implementing market penetration strategy, and ensuring a strong foothold in our industry, specifically in profitability. These steps were vital for enabling us to serve our customers in the best possible way.

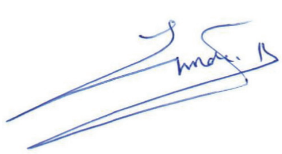
Recognizing the importance of these foundational elements, we continued with strong dedication to promote operational efficiency and accountability by supporting with the development and revision of range of policies, procedures, and guidelines. Uniquely, we took the implementation of our corporate business strategy, allowing us to excel our competitive advantages and establish a roadmap for sustainable growth. We are committed to fulfilling our purpose while enhancing the value we bring to our shareholders. As we move forward, our strategic focus remains on building our internal capabilities, expanding our capital base, leveraging advanced technology, and nurturing a culture of cost-awareness. These actions are essential for adapting to the evolving banking landscape and securing the long-term sustainability. We recognize that broadening our capital base is not just a business requirement but a shared responsibility that requires your ongoing support and commitment.

Despite the myriad challenges in the banking sector, I want to emphasize our dedication to deposit mobilization. During this fiscal year, we successfully opened 15 new branches, proudly increasing our total number of operational branches to 85 as of June 30. This growth reflects our collective efforts and resilience. Due to the recently enacted policy measures on credit by NBE and unmet resource mobilization during the fiscal year, the bank was unable to make loan disbursements as planned, even if considerable credit applications had been submitted to the bank. The bank disbursed a total amount Birr 2.17 billion during the fiscal year of 2023/24 while our loan-to-deposit ratio stood at 62%. Along with the loan disbursed to customers, the bank made a purchased of Birr 348.7 million NBE treasury bills as of 30th June 2024. In order to overcome the adverse impact of the credit ceiling, the bank has been working on enhancing internal efficiency while restricting its original branch expansion targets. On the other hand, International Banking operations generated a total FCY of USD 39.4 million as of June 2024. On the other hand, total number of permanent staff strength of the bank reached 670 as of as of 30th June 2024, showing a net increment of 196 staffs from that of June 30, 2023. Of the total staff strength, 69.1% are deployed for branches. Beside the permanent employees, the number of outsourced employees of the Bank stood at 710 as of 30th June 2024.

The Bank's total income as of 30th June 2024 amounted to Birr 790.6 million while the total expense of the Bank, Including provision for loan and advances, and depreciation, reached 689.4 million as at of 30th June 2024. The profit of the Bank, before income tax, reached Birr 101.3 million. Total assets, total capital and paid-up capital of our Bank reached Birr 5,605 million, 1,196.4 million and 1,074 million, respectively as 30th June 2024.

Going forward, with the full support of shareholders and a strong commitment to providing service to our communities, Gadaa Bank will strive to expand its network and digitalization so as to be closer to customers nationwide and aligned with financial inclusion. We, the Gadaa Bank members, continuously endeavor to build a strong institution that is globally reputable, competitive, and of great stature, that generates exceptional value for our shareholders. Our ongoing efforts continue to revolve around adhering to the highest standards of governance, risk and compliance, simplifying the operations of the bank, and creating a more user-friendly environment for both employees and customers. We aim to provide customers with suitable products and services, along with a robust people-oriented culture. We remain focused on the profitability of the bank so that we can appreciate and value the needs of our shareholders.

Finally, I would like to take this opportunity to extend my sincere gratitude to our esteemed shareholders, customers, Board of Directors, management and employees of our for their significant contribution for the success of our in the fiscal year. I am confident that your unwavering support will continue to sustain success of our bank while promising to perform to the expectations of our key stakeholders.

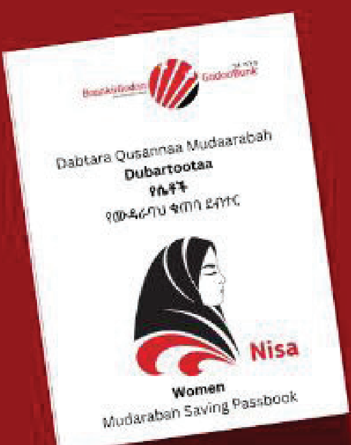


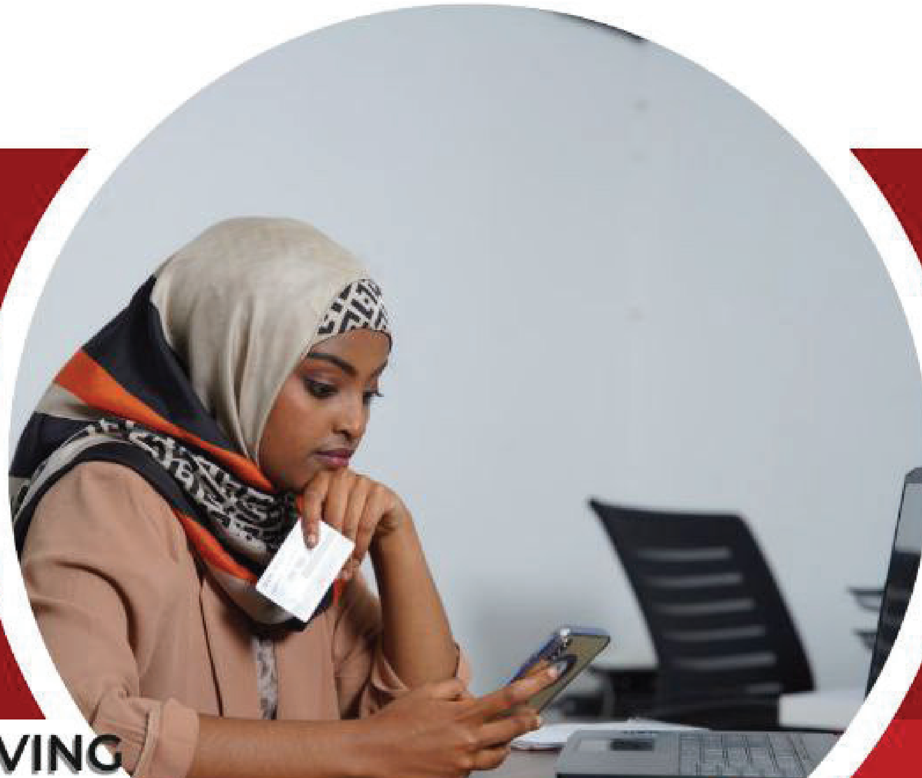
Wolde Bulto
Chief Executive Officer

Gadaa
غَدَاً الريان
Al Rayyan
Baankii Gadaa
New Generation's Bank
GadaaBank
Wadi'ah Saving Passbook
Dabtara Qusannoo Dhala Irraa Bilisaa

غدَاالريان
Gadaa Al Rayyan

FULL FLEDGED **Interest-Free** BANKING SERVICE





NISA

MUDARABAH SAVING

Sharia Advisory Committee (SAC) Members

Sheikh Jemal Musa Jilo
Chairman

Sheikh Hussein Mahmud Hamu

Deputy Chairman

Sheikh Musa Sheko Mengi

Member

Gadaa Bank Sharia Advisory Committee (SAC)
Statement for the Fiscal Year Ended June 30, 2024

Gadaa Bank Sharia Advisory Committee (SAC) Statement for the Fiscal Year Ended June 30, 2024

To the Shareholders, Customers and other stakeholders of Gadaa Bank S.C

Pursuant to the Gadaa Bank's SAC Charter and its provision associated to the Interest-Free :Banking (IFB) services, the SAC presents the following report

Gadaa Bank Interest-Free Banking (Gadaa Al Rayyan) offers a wide range of deposit, financing, and other banking services. We are pleased to announce that during the financial year ending June 30, 2024, Gadaa Al Rayyan has mobilized deposits totaling Birr 178.69 million from a customer base of 38,870.

We, the Sharia Advisory Committee of Gadaa Bank is fully dedicated to ensuring that our products, services, and processes adhere to the required Sharia compliance standards throughout the financial year. In addition to providing advisory services and ensuring Sharia compliance for regular banking operations, the committee actively supports the growth of IFB business and organizes awareness creation events to address any concerns raised by the community.

The committee regularly reviews and deliberates on various reports and Sharia-related inquiries presented by the bank's work units. This process helps us determine the overall Sharia compliance of the bank's IFB window services, in line with internationally accepted IFB finance principles. We have provided feedback and direction based on the explanations provided by the bank's officials and experts.

The bank's management is responsible for ensuring that its IFB business operates in accordance with sharia rules and principles and relevant directives of National Bank of Ethiopia.

In our opinion:
i.The contracts, transactions and dealings entered into by the bank during the financial year ended June 30 2024 which we have reviewed, are in compliance with Sharia rules and principles.
ii.The bank is exerting utmost efforts to comply with regulatory requirements as well as sharia governance principles
Finally, the Sharia Advisory Committee takes this opportunity to appreciate the efforts and commitments of the Board of Directors, the Bank's Management and staff in understanding and adherence to the rules of the sharia principles.

Thank you very much!
Jazakumullah khairan!

Sheik Jemal Musa Chairman	Sheik Hussein Mahmud Deputy Chairman	Sheik Musa Sheko Member & Secretary

Board of Directors Report

BOARD OF DIRECTORS REPORT

It is with great pleasure that the Board of Directors of Gadaa Bank presents the bank's annual performance report for the fiscal year that ended on June 30, 2024 at its annual general meeting. Throughout the 2023/24 fiscal year, despite facing significant challenges, including social unrest, recent credit cap enacted by the National Bank of Ethiopia, heightened business dynamism, evolving regulatory environments, and global uncertainties affecting the banking sector, the bank has demonstrated exceptional performance and achieved outstanding performance. Since its inception, Gadaa Bank has consistently pursued substantial growth through dedicated and focused efforts. We have successfully engaged in a range of initiatives that enhance operational efficiency, improve accessibility, increase brand visibility, elevate employee capabilities, and drive robust profitability.

1. Major Macroeconomic Highlights of 2023/24FY

1.1. Global Economy

Global economy has been continued with resilience and extensive monetary measures, posing a distinct challenge that exceeds the economic downturns observed in several decades during the concluded fiscal year. Economic activity has not yet returned to its pre-pandemic levels of growth (average of 3.8%). According to the IMF (July, 2024), the growth is estimated to slow from an estimated 3.3% in 2022 to 3.2% in 2024. Geopolitical risks and commodity market uncertainties have increased due to the recent Middle East crisis, which could have a negative impact on global GDP as well as on Ethiopian international trade. In the meantime, inflation is falling faster than expected in most regions. Global headline inflation is expected to fall from 9.2% in 2022 to 5.9% in 2024 and to 4.4% in 2025 (IMF, April 2024). The forecasted global unemployment rate for 2024 is 4.9%, which is a minor decrease from the 5.0% rate in 2023 (World Employment and Social Outlook Trends 2024 report).

The recent Middle East crisis, four years COVID-19 impact, the Russian-Ukraine war, low productivity growth, weak global trade, and investment, as well as continued geopolitical tensions in various regions of the world, yet high inflation and subsequent sharp tightening of global monetary conditions in many economies were cited as major contributors for global economic to remain stable, among others.

Commodity prices have returned to their pre-Russian-Ukraine war levels but remain historically high. In the twelve months of 2022/23FY, the average price of energy items increased by 16.6% whereas the price of non-energy items declined by 4.5% as compared to last year's same period (WB, June 2023). Metals prices have remained subdued amid a weaker-than-expected industrial recovery in China. Monetary tightening and risk aversion have led to widespread currency depreciations and steep capital outflows from emerging market and developing economies.

1.2. Domestic Socioeconomic

World Bank's latest updated in June 2024, Ethiopia is the second-most populated country in Africa after Nigeria with over 123 million people as of 2022. It also has one of the fastest growing economies in the region, with an estimated 7.2% growth in 2023. Nevertheless, with a per capita gross national income of USD 1,020, it continued to be among the poorest.

However, current social unrest, more than two-years war in northern part of the country, as well as droughts, floods, and persistent inflation, are still being felt by the Ethiopian economy, which has also been hampered by shortages of foreign currency. Additionally, the previous shocks of the economy are compounded by the spillover effects of recent Middle East crisis, the Russia–Ukraine war and global financial tightening has magnified Ethiopia's economic vulnerabilities. The war led to price hikes in import commodities, which had a significant influence on welfare, production, and economic growth for emerging countries like Ethiopia. During the past fiscal year, the domestic economy faced challenges such as instability and conflict, high inflation, depreciation of the Birr, escalating external debt, and a shortage of foreign currency. Additionally, a tight monetary policy, including credit capping, increased competition, and the rise of money operators, characterized the economic landscape. In response to these challenges, the government implemented various policy reforms aimed at achieving its reform objectives. Notably, the National Bank of Ethiopia introduced measures to enhance financial sector stability. These new directives focused on limiting large borrower exposures, managing related party exposures, improving asset classification and provisioning, addressing the influence of significant persons, and strengthening corporate governance within banks.

Beside the global and domestic challenges, Ethiopia has earned USD 3,303.5 million from export during the first eleven months of this fiscal year. On the other hand, country level inflation recorded 19.9% in June 2024, which are still high and off-target with possible adverse effects on resource mobilization of the banking industry. Food inflation stands at 22.7%, while Non-food inflation came down at 15.3% (NBE, June, 2024).

1.3. Banking Industry

As of June 30, 2024, the number of commercial banks in the industry is stood at 31, of which 30 are private and 1 public. All commercial banks strive to compete for provision of similar services and share the same market and resources with stiff competition. The banking industry faces multifaceted challenges during the fiscal year. These include Stiff competition among each other, intense competition from rapidly growing Mobile money operators, a complex and evolving regulatory environment, presence of unethical practice, parallel market, serious liquidity challenges, economic instability (inflation, currency fluctuations, political uncertainty), and the need to meet rising customer expectations for digital and personalized services. Furthermore, a significant portion of the population remains unbanked, representing both a challenge and an opportunity for expansion.

As per the data collected from banks, the total assets, deposits, and paid up capital of commercial banks estimated above Birr 3.3 trillion, Birr 2.5 trillion, and Birr 258.3 billion, respectively, as of 30th June 2024. Except loan disbursement and collection, banking industry registered growth in most financial performance indicators as compared to last year the same period. Whereas, all the third generation banks mobilized an incremental deposit from their June 30, 2023 balance, where other banks registered mixed growth from their 30th June of 2023 position.

2. Major Operational Consideration for the Fiscal Year

In the contemporary banking sector of Ethiopia, factors such as technological innovation, shifting customer expectations, dynamic business environments, and transforming regulatory frameworks are paramount. In response to these challenges, Gadaa Bank undertook a series of strategic initiatives and system development during the fiscal year 2023/24 to enhance its competitive positioning within the market. In light of the significant importance of competent banking practices, it was imperative for Gadaa bank to prioritize the delivery of efficient and effective services while also personalizing customer experiences. This entailed simplifying processes, enhancing resource mobilization, and ensuring both efficiency and accountability among all stakeholders.

In this vein, Gadaa Bank S.C. has committed to sound and thoughtful management and governance throughout the fiscal year. The board of directors and executive management has assumed critical roles during the fiscal year under review. In compliance with regulatory mandates, the bank has undertaken numerous initiatives to establish robust corporate governance practices. Throughout the year, a series of discussions, deliberations, and strategic decisions have been implemented to ensure that the bank not only secures a competitive position in the market but also adheres to all regulatory frameworks.

To this end, the bank is dedicated to the effective execution of its five-year corporate business strategy, with careful consideration of the current regulatory environment and the dynamic nature of the marketplace. This commitment is intrinsically linked to the annual operational plan, ensuring consistency and alignment throughout the organization.

Furthermore, the bank is actively pursuing the formulation and implementation of various functional strategies and other strategic initiatives aimed at enhancing overall operational performance. A significant focus on fostering a cost-conscious working culture has yielded positive results, enabling Gadaa Bank to achieve profitability sooner than anticipated, even amidst periods of financial challenge. This strategic emphasis has facilitated the generation of sustained profits throughout the fiscal year, beginning in July 2023, and has allowed the bank to maintain this growth trajectory through ongoing efforts that effectively augment its revenue streams.

On other hand, setting up a quality service delivery system, managing conducive operating culture, designing successful market penetration mechanisms, and establishing a promising position in the industry are all critical factors for Gadaa Bank to implement significant system development during the start-up period. Given the significance of this phenomenon in ensuring competent banking operations, enabling efficient and effective banking service delivery, personalizing customer experiences, making it simple to do, and improving resource mobilization, our bank developed a number of policies, procedures and guidelines to ensure process efficiency and effectiveness as well as the accountability of all performers so as to meet requirements of National bank of Ethiopia.

Digitalization plays a critical instrument for Gadaa Bank to realize of its visions, which include offering comprehensive banking services, contributing to economic and social growth, and going beyond mere customer-centric financial services. The bank developed and planned a variety of IT systems by taking this phenomenon into consideration and realizing how important it is for competent banking practices, facilitating the delivery of efficient and effective banking services, personalizing client experiences, making it simple to accomplish, and improving resource mobilization.

The Bank has continually been undertaking improvements and deployment to its IT and operational systems. Consistent with the change in the industry, the bank has focused and paid a great attention on continuous deployment of various modules of core banking system and transforming its banking service with customer-centric digital banking service via thorough analysis of customer expectation and preference in couple with the bank's capability to avail a range of banking channels, all tailored to the demands and preferences of customers. During the fiscal year 2023/24, the Bank has witnessed tremendous progress following the implementation of the core banking system which enabled it to deliver convenient and efficient services to its honored customers. Besides, the recently launched ATM, the bank are also believed to further promote the IT infrastructure and digital banking so as further enrich the performance of the Bank as well as its image. Furthermore, the Bank has been implementing its second phase CBS implementation.

Beside the continuous effort on infrastructure development, the board of directors and management of the bank have undertaken various initiatives as to how to mitigate the challenges toward the optimization of banking service and cost management that optimize interest of shareholders and other stakeholders. It is with great pleasure that we announce the completion of the handover of the land for our bank's future headquarters this fiscal year. Additionally, site preparation has been completed, including fence and site clearance. We are grateful to all parties involved for their efforts and anticipate your continual support.
Considering its strategic direction and the above operational consideration, the bank has translated its five-year strategy into an annual operational plan. During the fiscal year 2023/24, the bank achieved significant successes in several key performance indicators, while demonstrating moderate performance in other areas. The summary of operational performance is presented here below as follows.

3. Operational Performance

3.1. Deposit Mobilization

During the fiscal year 2023/24, Gadaa Bank continued to give a major emphasis on deposit mobilization, despite the continuous stiff competition in the banking industry, liquidity problems observed in many banks, and existence of other external challenges. The Bank has mobilized an incremental deposit of Birr 2,396 million during the fiscal year, and a total deposit of the bank reached Birr 4.01 billion as of 30th June 2024. As the performance indicates, the 'private and individual' category is the primary deposit sources that the Bank may control by availing more service outreach, recruiting additional customers, improving its service quality and implementing other initiatives as well as developing resources mobilization strategy.
Major strategic initiatives undertaken, together with the best efforts of the Bank's stakeholders were the main contributors to the performance registered during the fiscal year. On other hand, the presence of malpractices and stiff competition in the industry, and recently enacted NBE's stringent measures on credit (credit cap) induced critical challenges on further deposit mobilization efforts of our bank.

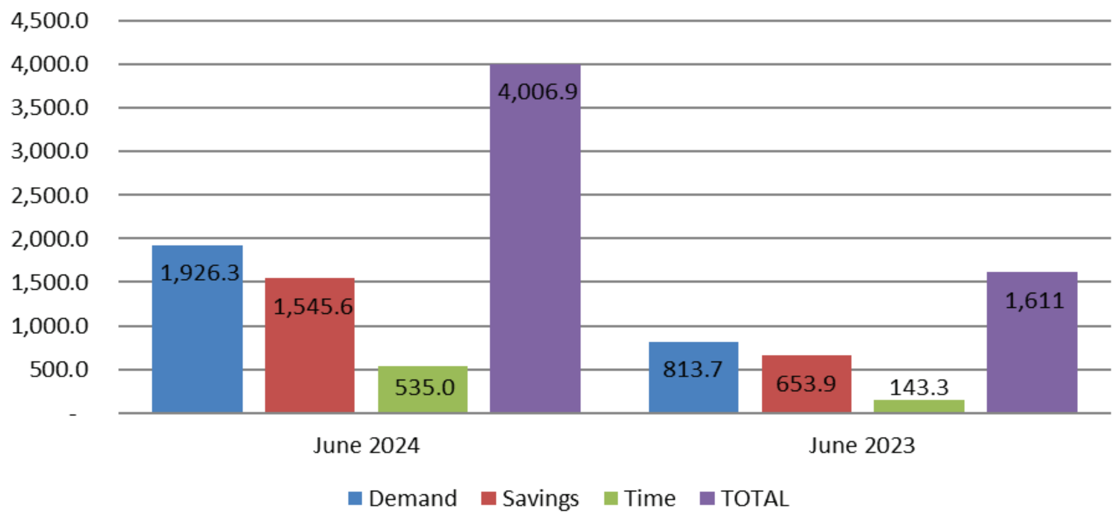


Figure 1: Deposit position by type (in Million Birr)

In terms of composition, out of the total deposits balance of the Bank including the IFB deposit, demand deposits claimed the largest share (48%, Birr 1,926.3 million) while saving deposit constitutes about 39% share of Birr 1,545.6 million as at of June 30, 2024. On other hand, the time deposit share of the bank grew by 50% as compared to the last year the same period position while the share of saving and demand deposits drop by 5%.

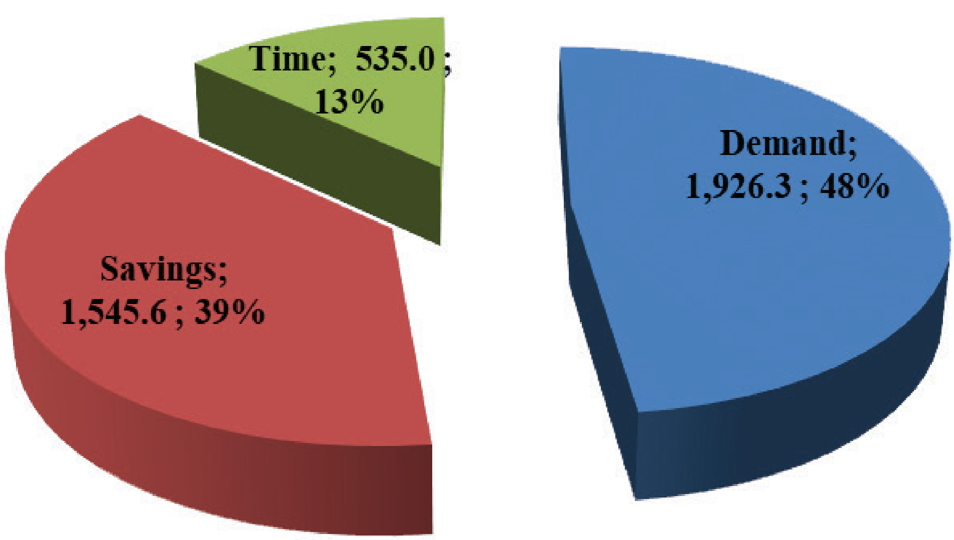


Figure 2: Percentage Share of Deposits (in Million Birr)

3.2. Customer Base

During the fiscal year of 2023/24, the bank has managed to open deposit accounts of 212,645, resulting in the total number of customers of the Bank to 288,174 including IFB accounts. On average, the bank managed to open only 682 accounts on daily basis, which were nearly 9 accounts per branch per day. With regard to IFB customer, the bank only managed to recruit 38,873 accounts.

Compared to last year the same period, the corporate customer base has increased from 75,482 to 288,174 showing a growth rate of 282%. However, this impressive growth is resulted from branch's performance and expansion (considering last year existing 60 branches). Comparing this average with individual branch's performance the data shows that 24 branches (40% of the total) with significant variation are successfully able to surpass this feat while the remaining 36 branches (60%) are unable to meet this result.

3.3. Branch Expansion

The Bank intended to serve its customers through physical branch expansion across the country and introduce digital accessibility to deliver banking services with high service quality that satisfy customers' expectations in achieving its strategic objectives. The bank was able to open twenty five (25) branches as a result the total branches of the bank reached 85 as of June 30, 2024. Of the newly opened branches sixteen (16) were in Finfinne while the rest nine branches were opened at outlying areas, and the whole newly opened branches were able to mobilize a total deposit amount of Birr 204.5 million as of June 30, 2024.

The bank's strategic direction to contain expenses due to recently enacted NBE's measure on credit, increasing rental costs, timely deployment of human resources, fierce competition, peace and security, and among other things, are the main reasons and challenges encountered during the period for branch expansion activities while large demand were exhibited for branch expansion.

Branch Inauguration event

3.4. Credit Performance

Encouraging potential and creditworthy borrowers to invest in and contribute to the nation's economic growth was one of Gadaa Bank's top priorities during 2023/24FY: providing loans and finance to different economic sectors to grow its revenue and boost its business potential. To this end, a total of Birr 2.2 billion was provided to customers in the form of loans and advances and IFB financing for different economic sectors by the bank during the fiscal year. Due to the measures contained on credit by NBE during the early fiscal year 2023/24, the bank was unable to make loan disbursements as planned, even if a considerable demand for credit had been submitted to the bank. During the fiscal year, the Bank was able to disburse Birr 2,100.1 million in conventional loans.

- **Outstanding Loan by Sector**

As of 30th June 2024, the Bank's total outstanding portfolio of conventional loans and advances was stood at Birr 2.4 billion, which stood at 61.6% loan-to-deposit ratio, these could help the bank to manage its liquidity and give time to learn the stable portion of the bank's deposit. The prudence in loans appraisal and analysis has assure the bank's credit healthiness as all loans and advances at the fiscal year were healthy. Hence, our credit expansion has been in the conformity with the growth in resource and was planned in a way that ensure against liquidity of the bank. Relative to the preceding similar year, it showed a growth of 182% (Birr 1.6 billion) from the balance of Birr 866.3 million as at June, 2023.

With regard to conventional loans outstanding by economic sectors as of 30th June, 2024, export loan accounted for the majority at 25% (Birr 609.5 million), with industry coming in second at 19.2% (Birr 468.3 million) and domestic trade coming in third at 14% (Birr 468.3 million).

Out of the total amount of Birr 2.4 billion in existing loans and advances as of June 30, 2024, short term loans make up 58.3%, medium term loans make up 25.8%, and long term loans comprise up 15.9% thus helping ease in a modest way the scarcity of long-term finance in the banking industry

Table 1: Annual Conventional Outstanding Loan performance (by sector)

(Million Birr)

PARTICULAR	As of June, 2024		As of June, 2023		Annual Growth rate
	Amount	% Share	Actual	% Share	
Agriculture	35	1.4%	-		
Industry	468.3	19.2%	248.4	28.7%	89%
Domestic Trade	340.9	14.0%	50.7	5.9%	572%
Export	609.5	24.9%	185.1	21.4%	229%
Import	245.1	10.0%	75.6	8.7%	224%
Transport & Communication	27.8	1.1%	7.2	0.8%	286%
Housing and Construction	236.98	9.7%	154	17.8%	54%
Hotels and Tourism	264.7	10.8%	130.5	15.1%	103%
Financial Institution	57.5	2.4%	-		
Consumer	157.42	6.4%	14.7	1.7%	971%
Total	**2,443.30**		**866.3**		182%

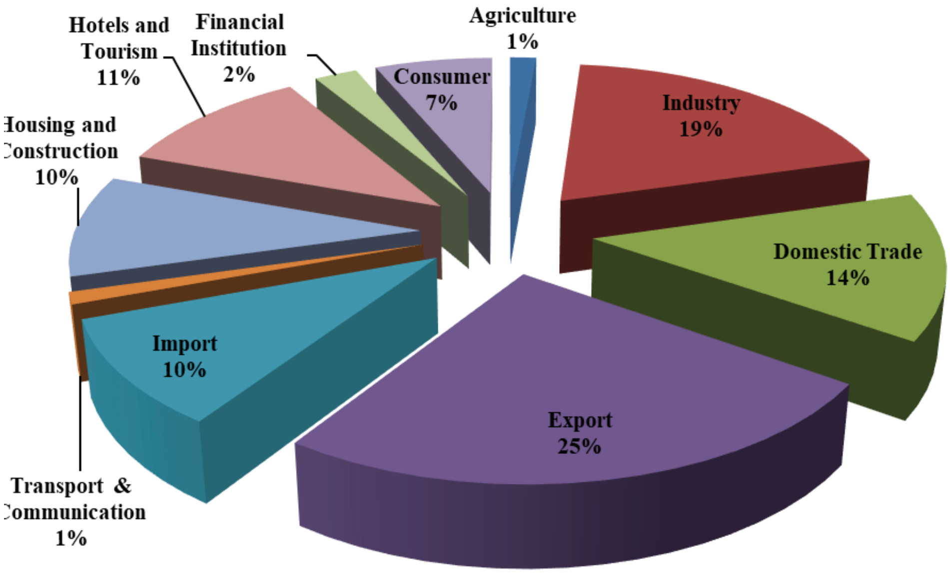


Figure 3: Outstanding Loans and Advance by Sector (in Percentage)

3.5. International Banking Performance

The bank has made a very impressive start and continued by successfully attracting large remittance to direct FCY inflow through Gadaa Bank even though the correspondent bank relationship challenges continued for the year ended. During the fiscal year, the Bank was able to generate a total of USD 39.4 million, which was showed a growth of 583% from that earned in the previous fiscal year. Among the foreign currency sources, remittance inflow generate a USD 31.3 million as of June 30, 2024, and a growth of 560% as compared to the last fiscal year.

When the foreign currency generation growth rate was compared to last year the same period, except for foreign currency dealing, which climbed by 83.3%, all of the indicated foreign currency sources, had increased by more than 100%. Significant contributions to the growth rate came from remittances at 560.3%, purchases at 150%, and export-generated foreign currency at 1058.7%. During the concluded fiscal year, the Bank also generated an additional 175 EUR and 315 GBP through cash purchases.

Table 2: Annual FCY earnings performance of 2023/24FY

Million USD

SN	Item	June,2024		June,2023		Growth Vs June 2023
		Amount	% Share	Actual	% Share	
1	Exports	7.3	19%	0.63	11%	1058.7%
2	Remittance	31.3	79%	4.74	82%	560.3%
3	FCY Purchase	0.25	1%	0.1	2%	150%
4	FCY Dealing	0.55	1%	0.3	5%	83.3%
Total earning		**39.4**		**5.77**		**582.8%**

3.6. Interest Free Banking Services

As part of its business strategy, Gadaa Bank placed a high priority on interest-free banking services through opening window-based and full-fledged branches and offering interest-free banking services to customers in compliance with Sharia law. During the fiscal year 2023/24, an incremental deposit amounting to Birr 104.8 million has been mobilized from the Interest-Free Banking (IFB) service, representing a growth of 141.8% as compared to the last year same period and the total IFB deposit stood at Birr 178.7 million as of 30th June 2024. Of which, a large amount is mobilized from Wadia Savings (Birr 61.4 million), while the Amanah Deposit exhibits an increment of Birr 61.4 million from June 30, 2023. In this regard, the bank should give due attention to this service so as to mobilize more resources from this segment by expanding window-based and full-fledged branch services, besides enhancing employees' product know-how. In doing so, the shortfalls registered in the first quarter are expected to be compensated in the next fiscal year.

As of 30th June 2023/24, the Bank was able to disburse Birr 53.7 million. The Bank's total outstanding portfolio of interest-free financing as of June 30, 2024 was stood at Birr 52.4 million. With regard to interest-free financing by economic sectors as of June 30, 2024, the majority or 72% (Birr 37.7 million), was accounted for by domestic trade, followed by export (19%) (Birr 10.1 million) and other IFB financing (9%) (Birr 4.6 million).

Regarding the accessibility of interest free banking service, the bank has adopted window based services over all its branches and dedicated full-fledged IFB branches. During the fiscal year ended June 30, 2024, the bank offered its IFB service throughout all conventional branches and has managed to open three additional full dedicated branches during the fiscal year.

3.7. Digital Banking

In order to enable consumers to access a variety of financial and banking services whenever they want, wherever, and without the need to physically visit a bank branch, competition for digital banking services has been fiercely growing both locally and internationally during the fiscal year. Gadaa Bank has also designated digitization as one of its strategic priorities and planned to use a range of digital technologies to provide customers with prompt, excellent services regardless of where they are. As a result, the bank set up and started offering customers various digital banking services, including mobile banking, ATM, call center, and other digital services. In addition, the bank is in the midst of introducing further online and integrated seamless digital banking services.

Consequently, during the fiscal year under review, a total of 42,930 customers had already signed up for mobile banking services. Furthermore, the Bank intended to offer card banking service to its customers and was able to deliver a total of 576 debt cards to different customers as of June, 2024.

As per the bank's plan to purchase and install ten (10) ATMs in feasible business areas during the fiscal year, ten machines were bought, two were installed, and began offering transaction services to customers; the other eight are currently being installed in more feasible and marketable areas. However, the process of implementing POSs has started; it won't be possible to provide services to customers within this fiscal year 2023/24.

As of June 30, 2024, the number of transactions via digital banking banking reached at 202,432 with a total value of Birr 1.6 billion. Despite the fact that the start dates of the digital banking operations vary, P2P transactions account for the biggest percentage of outgoing and incoming transactions of 36.5% and 15.2%, respectively-followed by fund transfers (23.6%). The ATM has the lowest transaction amount among digital banking services due to its delayed start of operation. As a result of digital transactions, the Bank earned a total of 659,726 income commission from P2P and 5,144 from ATM during the same year.

3.8. Income

The Bank's total income as of 30th June, 2024 amounted to Birr 790.6 million, showing growth of 609% relative to the amount generated last year the same period. Of the total income generated during the fiscal year 2023/24, a total income of Birr 235.3 million earned from International Banking service during the 2023/24FY. As the second highest share of revenue generated from international banking operations (30% of total gross revenue) next to interest income at the very strong initial contribution of the International Banking services and the fact that, as a bank just continued with enhancing FOREX operations, as the new loans had not yet fully began paying interest in the first one year and six-month period of banking operation.

Interest earned on loans and advances, and guarantee commissions are also the major sources of income for the period. Accordingly, interest income from loan, which constituted 35% of the total income, was Birr 281.7 million while income earned from guarantee commission was constituted about 22.7% of total income.

Table 3: Summary of Income **(Million Birr)**

Particular	Jun-24		Jun-23		Growth Vs June
	Actual	% Share	Actual	% Share	
Interest Income	**353.74**	**45%**	**63.64**	**57%**	456%
Interest Income on TD	72.04	9%	27.66	**25%**	160%
Interest Income on Loan	281.7	36%	35.98	**32%**	683%
Commission & Charges	**436.73**	**55%**	**47.80**	**43%**	814%
Guarantee commission	179.5	**23%**	18.92	**17%**	849%
Forex service income	188.7	**24%**	20.99	**19%**	799%
Other Income	**68.53**	**9%**	7.89	**7%**	769%
Total Income	**790.47**		**111.44**	**559.89**	**609%**

3.9. Expense

The overall expense of our bank reached Birr 614.4 million as of June 30, 2024 excluding the provision allotted for loans and advance and depreciation. Including provision allotted for loans and depreciation expense the bank's total expense stood at Birr 689.4 million. In this regard, the bank followed strong expense management orientation and save large amount of expenses especially costs related to additional human resource by focusing on the existing staff productivity. Salary and benefits accounted for the majority of expense types during the period with a share of 43%, followed by general expenses with a share of 30%, and interest expenses with a share of 16% during the fiscal year.

Table 4: Summary of Expense

(Million Birr)

Particular	Jun-24		Jun-23		Growth Vs June
	Actual	% Share	Actual	% Share	
Interest Expenses	**110.3**	**16%**	**9.24**	**4%**	**1094%**
Salaries & Benefits	**296.3**	**43%**	**124.68**	**51%**	**138%**
General Expenses	**207.8**	**30%**	**84.3**	**34%**	**146%**
Rent expense	69.3	**10%**	23.05	**9%**	**201%**
Other gen exp.	138.6	**20%**	61.28	**25%**	**126%**
Total Expense Before Prov.	**614.4**	**89%**	**218.3**	**89%**	**182%**
Provision for loans	23.2	**3%**	8.16	**3%**	**184%**
Depreciation exp.	51.8	**8%**	19.86	**8%**	**161%**
Total Expense	**689.4**		**246.3**		**180%**

3.10. Profitability

Despite losses incurred during its first six months of operation during 2022/23, the bank was able to turn a profit in the whole months of 2023/24FY, starting from the month of July, 2023 and beyond. Before depreciation, and provisions for loans and advances, the bank generated a profit of Birr 176 million over the twelve months of the 2023/24. On the other hand, the Bank registered a profit before tax of Birr 101.1 million for the year ended June 30, 2024 while it resulted with Birr 90.2 million after income tax for the fiscal year. This suggests that the bank, thoroughly the implement excellent cost management and revenue maximization measures, has begun to show profitability in its early stages. In order to meet the large expenses incurred so far as well as its projected future expenses and to make up for the loss from the previous year, the bank will continue to undertake numerous initiatives that boost its revenue sources over the remaining months of the fiscal year.

Table 5: Summary of Profit /Loss

(Million Birr)

Particular	Jun-24	Jun-23	Growth Vs June
	Actual	Actual	
Interest Income	353.7	63.6	**456%**
Interest Expense	110.3	9.2	**1094%**
Net Interest Income	**243.4**	**54.4**	**347%**
Non-Interest Income	436.7	47.8	**814%**
Non-Interest Expenses	504.1	209.0	**141%**
Net Non-Interest Income	**(67.4)**	**(161.2)**	**158%**
Profit/Loss Before Depr & Prov.	**176.0**	**(106.8)**	
Provision for loan	23.2	8.2	**184%**
Depreciation exp.	51.8	19.9	**161%**
Profit/loss after provision and Depreciation	**101.1**	**(134.8)**	
Income tax	(11.1)	50.5	
Profit for the year	**90.2**	**(84.3)**	

3.11. Balance Sheet

Asset: As of June 30, 2024, the total assets of the bank stood at Birr 5.6 billion, which was 61% of the predicted target of Birr 8.83 billion. Major categories of assets, such as net outstanding loans and advances, cash on hand and other Banks, and net fixed asset, contributed 43%, 17% and 14%, respectively. The detail position of various asset items of the Bank is summarized below in comparison with the plan as well as their contribution to total asset.

Table 6: Balance sheet Summary (Million Birr)

Particular	Jun-24		Jun-23		Growth Vs 2023
	Actual	% Share	Actual	% Share	
Asset					
Cash on Hand and Other Banks	964.3	17%	731.9	27%	32%
Investment in Securities	686.3	12%	104.1	4%	559%
Other assets	281.3	5%	74.6	3%	277%
Interest free Financing	51.9	1%	-	0%	
Net Outstanding Loans and advances	**2,416.9**	43%	**858.1**	32%	182%
Right of use assets	**375.3**	7%	**239.2**	9%	57%
Net Fixed assets	**780.0**	14%	**629.7**	23%	24%
Deferred tax	**49.3**	1%	**52.8**	2%	-7%
Total Assets	**5,605.3**		**2,690.4**		**108%**
Liabilities					
Deposits by Type					
Demand Deposits	1,926.3	44%	813.7	43%	137%
Saving Deposits	1,545.6	35%	653.9	35%	136%
Fixed Time Deposits	535.0	12%	143.3	8%	273%
Total Deposits	**4,006.9**	**91%**	**1,610.9**	**86%**	**149%**
Other Liabilities	**402.0**	9%	**271.6**	14%	48%
Total Liabilities	**4,408.9**		**1,882.5**	**2,402.0**	**134%**
Capital					
Paid Up capital	**1,074.4**	**90%**	**890.15**	**109%**	21%
Retained earnings	**(23.38)**	**-2%**	**(79.87)**	**-10%**	-71%
Reserves	**145.39**	**12%**	**3.42**	**0%**	4151%
Total capital	**1,196.4**		807.8		**47%**
Total Liabilities and Capital	**5605.3**		**2690.4**		**108%**

Capital: The total capital of the bank stood at Birr 1,196 million as of June 30, 2024, where the total paid up capital of Bank reached Birr 1,074 million. Compared to the June, 2023 balance, the paid-up capital showed only 21% (Birr 184 million) growth.

4. Human Resource Management

One of the main focus areas of the bank's corporate strategy objectives is to attract highly qualified employees from a variety of backgrounds who can increase the bank's competitive advantage through innovation and superior productivity. To this end, the Bank recruited a total of 305 new employees, meeting 70% of the target of 438 employees during the fiscal year 2023/24. As of June 30, 2024, the Bank's total number of permanent staff reached 670. Of the total number of employees at the Bank, 207 (30.9%) deployed at the head office, while 463 (69.1% of the total headcount) were assigned at the branch. When compared to the same period last year, the Bank's staff had grown by 40% in 2023/24FY. Associate banker had the highest growth rate, followed by operative level management (42%), and experienced professional (2.8%).

Most studies show that employees in gender-balanced workplaces are more satisfied and committed to their employment than those in female- or male-dominated workplaces. Furthermore, it promotes new creativity, increased productivity, and innovation in the workplace. As a result, Gadaa Bank has been working to achieve gender balance at all levels; males account for 76.7% of branch level employees and 78.7% of head office personnel as of June 203/24FY. Out of 670 Bank workers, 77.3% were male and 22.7% were female. This shows that men are hired in greater numbers than women for head office and branch level posts. However, the percentage of females has increased compared to the similar period last year. Furthermore, efforts have been made to automate human resource activities through ongoing in-house IT development.

To meet the bank's strategic vision and innovate in alignment with its core business objectives, 1,923 employees received training on multiple topics in compliance with the intended human resource development targets. This was done to improve their leadership and professional human resources capabilities. Significant training programs, such as developmental training for 678 employees and technical training for 1,132 employees, both met their yearly target plans of 1,130 and 170 employees, respectively. In the same manner, during the fiscal year 2023/24, 113 employees received ethical training.

5. Our Investment

As of June 30, 2024, we have strategically invested a total of Birr 60 million in three profitable partner companies to enhance shareholder value and promote long-term growth. Accordingly, the Bank holds equity investments in Oromia Insurance Company 1.25%, Ethiopian Security Exchange S.C 0.33% and Ethio Swich S.C 2.24% as of 30 June 2024. These investments reflect our commitment to diversification and strategic partnerships, focusing on sectors such as insurance, capital markets, and the national payment system.

Oromia Insurance Company and EthSwitch have demonstrated strong profitability and established long-term partnerships with us, which we expect will yield significant returns in the coming years. Our feasibility and risk assessments indicate a viable investment with manageable risks. We have implemented strategies to mitigate potential challenges, ensuring that these investments will positively contribute to our overall financial performance and shareholder returns.

Table 7: Equity Investment of Gadaa Bank (2023/24)

Investee Company	Percentage holding	Cost
Oromia Insurance Company s.c	1.25%	15
Ethiopian Security Exchange S.c	0.33%	5,
Ethio Swich s.c.	2.24%	40

6. Environment, Social, and Governance (ESG)

Gadaa bank, as new generations' bank, remains committed to its Environment, Social, and Governance (ESG) responsibilities. Guided by its strategic plan as well as related guidelines, the bank has started its journey by identifying areas of environmental, social and governance aspect to be adopted by earmarking an investment to materialize initiatives and deliberate engagement on capacity building with strategic partners. Efforts to align internal policy and procedures are being put in place to view financings, investments and engagements with sustainability lens.

6.1. Corporate Social Responsibility

Gadaa Bank is honored to be the first community-based private bank with a sizable shareholder base to understand a corporate vision that goes beyond conventional, profit-driven business perspectives in terms of corporate social responsibility. To that end, our bank has demonstrated its commitment to corporate social responsibility by donating to local charitable organizations, community groups, and the governmental Initiatives, as well as carrying out significant public developmental schemes such as Green Legacy, 'Mead Megarat'/ Feast sharing Initiatives, the Greenery and beautification project and Community Celebration and Carnivals support and others in the fiscal year of 2023/24. Gadaa bank places a strong emphasis on the effective establishment and implementation of corporate governance practices that align with pertinent regulations. These practices are seamlessly integrated into the Bank's organizational culture. The Bank believes that its long-term success in business is rooted in the careful execution of key strategies, bolstered by a strong commitment from the Board to maintain the quality, integrity, and transparency of its mandates.

Gotera Talent Center


Donation for the Needy


Tree Plantation

7. Corporate Governance

Gadaa bank places a strong emphasis on the effective establishment and implementation of corporate governance practices that align with pertinent regulations. These practices are seamlessly integrated into the Bank's organizational culture. The Bank believes that its long-term success in business is rooted in the careful execution of key strategies, bolstered by a strong commitment from the Board to maintain the quality, integrity, and transparency of its mandates.

The Bank understands that sound corporate governance is crucial for building trust among shareholders, customers, employees and regulatory organs. This trust is nurtured through increased transparency around ownership and control, as well as the development of strong monitoring systems for effective business management. The Board of Directors and Executive Management see corporate governance as essential for fostering and maintaining shareholder confidence.

To ensure adherence to corporate governance principles, the Board of Directors oversaw the Bank's overall operations. Additionally, the Board actively promoted the institution's values, policies, and internal procedures, which apply to all members, including Executive Management and employees during the fiscal year. Moreover, to further ensure the corporate governance objectives at bank, a collective commitment is made by the Board of Directors, Executive Management, and all employees. This commitment is grounded in the governance principles outlined in the Board and Board Committees Charters, the Bank-wide Code of Conduct, and the Management Committees Terms of Reference, along with other related Corporate Governance policies.

7.1. The bank's Memorandum of Association

Gadaa Bank S.C. was established as a business organization by over 28,000 shareholders through a memorandum of association, enabling it to undertake banking activities in accordance with the FDRE Commercial Code, Proclamation No. 1243/2021. The Memorandum of Association of the bank comprises the location of the head office, the details of its shareholders including the number of shares they subscribed and the paid-up sums; the business purpose of the bank; its capital structure and par value of the shares; class of shares i.e. the bank issues only ordinary shares; the manner of distributing profits; the amount of special benefits allocated to promoters as per the commercial code; the number of directors and their roles, the responsibilities and duties of the chief executive officer of the bank; the auditors and other details required by the law of the land.

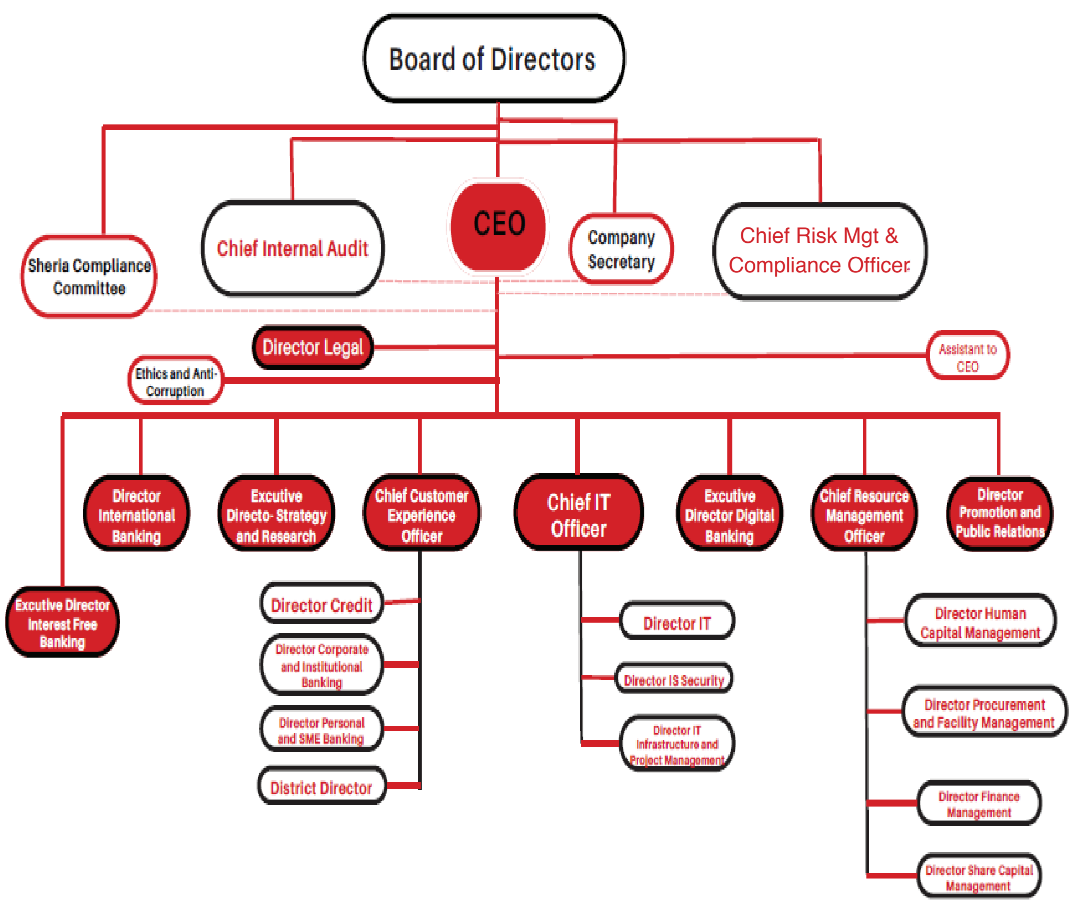
To keep up with the changing circumstances and legal environment, some amendments have been made to the memorandum, specifically regarding the bank's capital.

7.2. Gadaa bank's Organizational structure

In accordance with regulatory requirements and the principles of good governance, Gadaa bank's organizational structure is designed to align with its capabilities and operational needs. This structure serves as a framework that clearly defines the roles, responsibilities, and relationships among various stakeholders within the bank. At the pinnacle of this structure is the Board of Directors, which holds ultimate responsibility for governance, strategic direction, and accountability to shareholders. The board also oversees management performance and risk management. To facilitate these responsibilities, the board is supported by three key committees: the Audit Sub-Committee, the Risk Management and Compliance Sub-Committee, and the Nomination and Remuneration Sub-Committee.

Executive management, led by the CEO and senior executives, is tasked with implementing the board's strategies and managing daily operations. They report directly to the board and are accountable for the bank's performance. Within the bank, each department and division has specific operational responsibilities that contribute to the achievement of overall objectives. Shareholders play an essential role in governance, possessing the right to vote on significant matters, including board elections and major corporate changes, thereby holding the board accountable for its decisions.

Transparency and accountability are integral to our governance framework, enhanced by regular disclosures and reporting practices that keep stakeholders informed about the bank's performance and governance activities. Ongoing assessments of these practices are conducted to identify areas for improvement, which helps maintain stakeholder trust and promote responsible management. Ultimately, the organizational structure under corporate governance is designed to protect stakeholder interests and foster ethical business practices throughout the bank as follows.



7.3. Board of Directors composition and size

The Board of Directors (BOD) of Gadaa Bank, which is scheduled to conclude its term at the forthcoming general assembly, has been nominated and elected by shareholders through a well-defined and transparent process administered by an independent Nomination Committee. This procedure has received approval from the National Bank of Ethiopia.

The BOD comprises eleven members who bring a diverse range of core competencies and effectively represent the interests of non-influential shareholders and gender-element. Furthermore, all members of the Board meet the necessary educational qualifications, expertise and skills that qualify, as stipulated by the corporate governance guidelines established by the National Bank of Ethiopia, them to conduct their duties towards bank's best interests. They are also committed to spending the required amount of time and attention towards the accomplishment of their duties for the duration of their tenure.

7.4. Structure of the Board

The Board is comprised of a Chairperson, a Deputy Chairperson, and three sub-committees: the Nomination and Remuneration Committee, the Audit Committee, and the Risk Management and Compliance Sub-Committees, along with a non-voting Secretary. This structure is designed to enhance the effectiveness of governance practices within the Board of Directors. Each sub-committee is granted specific authorities to support the Board in its responsibilities. These committees are essential for exploring key areas such as risk management, audit, and remuneration, ultimately providing valuable insights and recommendations to the Board.

7.5 .The Functions of the Board

The Board recognizes its significant role in guiding the Bank's business strategy and ensuring its financial stability as well as safeguarding sustainability whilst ensuring shareholders' value, which are vital to our collective success. All the board members understood that this responsibility includes not only decisions about key personnel and internal affairs business affairs of the bank, but also how we structure our governance, oversee our operational performance and manage risks, all while meeting compliance requirements.

To build on our achievements and foster sustainable growth for the future, we're excited to introduce our innovative approaches via our bank's first corporate business strategy. Our aim is to positioning the Bank into a dynamic market player. The board identified key priority areas that will guide the bank's efforts in both the short and mid-term. Accordingly, the Board of Directors have been performing activities pertained to it and held nineteen meetings in the fiscal year. In addition to conducting regular meetings and overseeing business activities of the bank, the Board members have been participating in resource mobilization in different aspects.

Moreover, in a bid to effectively discharge its responsibilities, board of directors have reorganized itself into three subcommittees including Human Resource and Business Affairs, Audit and Risk Management & Compliance. In its regular mandate, among other things, the board has managed to discuss and approve more than 24 documents (policies, Procedures, guidelines, and frameworks under its authority). More importantly, the board has been committed to comply with NBE's requirements to enable the bank stand and get ahead in banking business.

7.6. Board, Its Sub-committees and Individual Directors' Performance Evaluation

Following the regulations set forth by the National bank of Ethiopia (NBE), every bank is obligated to undergo an evaluation of its Board and Committees at least once every year. Accordingly, Gadaa bank has conducted a comprehensive assessment of its Board, Board Committees and individual board member. This important exercise gave valuable insight on the effectiveness of the Board and areas for improvement. The outcomes of this assessment received a thorough review by the Board Nomination and Remuneration Committee. The Board consistently endeavors to enhance the development of governance practices.

8. Risk Management, Control and Audit

The bank has established an ongoing process to identify, evaluate, and manage its principal risks. This robust risk management framework includes enhancements to internal controls that respond to changes in the business environment or regulatory guidelines. It is regularly reviewed and updated to align with evolving regulations and best practices, effectively guiding the Board, Board Sub-Committees, Management, and staff in their stewardship roles.

Grounded in governance principles such as leadership, integrity, effectiveness, accountability, transparency, sustainability, and shareholder engagement, this framework informs management's decisions on Board oversight, delegation of authority, division of responsibilities, resource allocation, risk management, internal controls, compliance, performance appraisal, compensation, related party transactions, and financial reporting. Consequently, despite rapid changes in the risk landscape and significant pressures, Gadaa bank operated with vigilance and maintained operational resilience during the fiscal year concluded on June 30, 2024, demonstrating incisiveness, adaptability, and innovation in managing the risks associated with its business operation and compliance.

Furthermore, the bank has adopted a risk-based audit approach to evaluate the effectiveness of its internal control procedures for identifying and managing significant risks. This internal control system provides reasonable assurance against management misconduct, misstatements in financial information, and potential financial losses or fraud. The Audit Board Sub-Committee reviews these controls and has sought assurances from the bank's internal audit department regarding remedial actions for identified risks, ensuring the ongoing effectiveness of internal control procedures.

9. Summary of Board of Directors Performance In 2023/24

Board of Directors of Gadaa Bank is mandated to manage the business affairs of the bank subject to applicable laws. Accordingly, the Board of Directors have been performing activities pertained to it and held nineteen meetings in the fiscal year. In addition to conducting regular meetings and overseeing business activities of the bank, the Board members have been participating in resource mobilization in different aspects.

Moreover, in a bid to effectively discharge its responsibilities, board of directors have reorganized itself into three subcommittees including Human Resource and Business Affairs, Audit and Risk Management & Compliance. In its regular mandate, among other things, the board has managed to discuss and approve more than 24 documents (policies, Procedures, guidelines, and frameworks under its authority). More importantly, the board has been committed to comply with NBE's requirements to enable the bank stand and get ahead in banking business.

In summary, over the past year, the Board of Directors (BOD) has engaged in a series of discussions, deliberations, and strategic decisions to ensure the bank maintains a competitive position in the market while complying with all regulatory requirements. The board typically undertook the following activities, among others:

- Oversaw and recommended the effective execution of the corporate business strategy, with careful consideration of the current regulatory environment and the dynamic marketplace.
- Oversaw the procurement process of major IT applications that enhance customer-centric digital banking services.
- Undertook various initiatives to mitigate challenges related to optimizing banking services and cost management, benefiting shareholders and other stakeholders.
- Identified key priority areas to guide the bank's efforts for sustainable growth in both the short and mid-term.
- Played a significant role in the completion of the land handover for our bank's future headquarters and engaged in serious discussions about future plans.
- Oversaw and approved the translation of the bank's corporate strategy into an annual operational plan, ensuring its effective implementation throughout the year.
- Approved the bank's equity investment portfolio, focusing on diversification and strategic partnerships in sectors such as insurance, capital markets, and the national payment system.
- Ensured robust corporate governance to foster and maintain shareholder confidence.
- Actively promoted the institution's values, policies, and internal procedures applicable to all members, including Executive Management and employees.
- Despite rapid changes in the risk landscape and significant pressures, the board and its sub-committees ensured the bank operated with vigilance and maintained operational resilience throughout the fiscal year.

10. Gadaa Bank's Business Outlook for the Next Few Years to Come

Going forward, the board of directors, management and the entire employees of the Bank shall make renewed effort to bring higher performance in the coming years by executing strategic initiatives and exerting maximum effort in the areas of resource mobilization, cost management, digitalization, human resources development, IT infrastructure, processes improvements and business development. Hence, the Board of Directors and the management need unreserved support from all its stakeholders including shareholders, staff, and the regulatory body. In effect, the bank will continue to expand the full range of commercial banking services it has been offering since its establishment. In addition, we will further expand our roll-out of digital banking while also widening our offering of international banking services to a much larger base of customers than was the case so far. Beyond these services, we would also highlight several specific initiatives that are already begun or soon to be commenced in the new fiscal year:

- As the bank clearly put talented human capital as one of its key pillars identified on the corporate strategy, give great attention to cultivate skilled human capital, recognizing that our employees are key to thriving in a complex and changing environment marked by technological advancements and customer needs. We strive to establish confidence and trust among all stakeholders while equipping our staff to excel in delivering top-tier services. We foster a culture of trust and empowerment, equipping our team to consistently deliver superior customer service. Our commitment to fairness, diversity, and performance is underpinned by innovation, proactive problem-solving, stability, attention to detail, a people-centric approach, results orientation, teamwork, and our five core values. This will be the major areas of focus in the coming fiscal year so as to meet the desired objectives and positioning ourselves in the market.

- Broadening the capital base is vital for Gadaa Bank to comply with regulatory minimum capital requirements, enhancing stability in the banking sector. A strong capital foundation provides a buffer against losses, improves resilience during economic downturns, and boosts creditworthiness to attract investors. With additional capital, the bank can invest in technology and expand services, fostering growth and operational flexibility while building customer confidence. To mobilize substantial share capital, the Bank will engage stakeholders and investors through effective communication, corporate social responsibility initiatives, and networking opportunities. Additionally, tailored investment options and regular performance tracking will strengthen relationships. Finally, the bank plans to register in the Ethiopian capital market to enhance its role in the financial ecosystem.

- To become profitable as early as possible and ensure sustainability in this regard, the bank will priorities process optimization and effectiveness through the nurturing cost-conscious organizational culture. Gadaa Bank is now comfortably registering profits on a monthly basis and we intend to register profit this fiscal year 2023/24. This will enable the bank to deliver value to our valued shareholders while also fostering customer loyalty and confidence.

- Despite its brief existence, Gadaa Bank's early profitability has provided a competitive edge and confidence to explore new growth avenues. To capitalize on this momentum, the bank will encourage active participation from stakeholders, investors, employees, and customers, in its growth strategy for the next fiscal year (2024/25). The bank plans to enhance its market position by expanding product offerings, investing in advanced technology for operational efficiency, and improving customer service to foster loyalty. Strengthening its brand through targeted marketing and corporate social responsibility initiatives will also be a priority. Additionally, Gadaa Bank will seek partnerships with fintech companies and other financial institutions to leverage innovative solutions and expand its reach. By promoting a culture of inclusivity and collaboration, the bank aims to align stakeholder contributions with its strategic goals, ensuring sustained growth and establishing itself as a key player in the financial sector.

- Gadaa Bank's early success hinges on its commitment to cutting-edge technology and cost-conscious initiatives. This commitment is fundamental to the bank's strategy, enabling it to offer diverse services, expedite transactions securely, and deliver exceptional customer-centric experiences across all channels. To maintain this competitive advantage, Gadaa Bank will prioritize the rapid implementation of its existing and newly acquired technologies. This strategic focus will enhance the effectiveness, efficiency, and accessibility of its financial services, solidifying its position in the market and ensuring continued customer satisfaction. The accelerated deployment of these technologies will be a key driver of growth in the 2024/25 fiscal year.

- The bank will continue to create strategic alliance with various partners and put up its best effort to carry out all of initiatives in an effect of sustainable future for all stakeholders and to advance operational excellence. And these focus areas are: improving its accessibility through physical and digital channels; providing a broad range of goods and services that will continue to cater to the needs of various societal segments; fostering a high-performance culture among our staff and investing in them to develop a skilled, motivated, and future-ready workforce; providing dependable and convenient service quality; cultivating relationships with customers; improving resource mobilization and utilization capacity; creating a more efficient organization; improving process effectiveness; and upholding and strengthening a strong brand image.

- For customers, trust and preferences are based on the quality, responsiveness, and consistency of their experiences. We have given our employees empowered to satisfy customers with a human-touch combined with technology. Hence, our bank tenet of delivering a banking experience that is seamless, intuitive, and effortless by launching pioneering products, enhancing our digital capabilities, and keeping customer convenience at the center of everything that we do. Additionally, in the year ahead will deliver the convenience of multi-channel banking services that have been on pipeline, including ATMs, Internet Banking, Credit card, and Call Center service. To deliver the same, we are committed to find innovative solutions that keep our customers safe and able to deliver prompt service for the banking business they need, when they need them.

- We firmly believe in interacting and collaborating with strategic partners who support us in addressing the effects of our business on communities, the environment, and customers. Gadaa Bank intended to expand its strategic partnerships with many stakeholders beyond what it has previously accomplished.

- Finally, we are confident that with your (shareholders'), esteemed customers' and other stakeholders' support we will overcome this season of difficult and challenging economic conditions, stiff competition over resources and build up our bank on strong foundation that make a well positioned to take advantage of the opportunities in the economic prospects and success of our country and deliver noticeable value to our shareholders. We continue to grow in key areas of focus and our strong points that ensure our well positioned looking forward.

11. Vote of Thanks

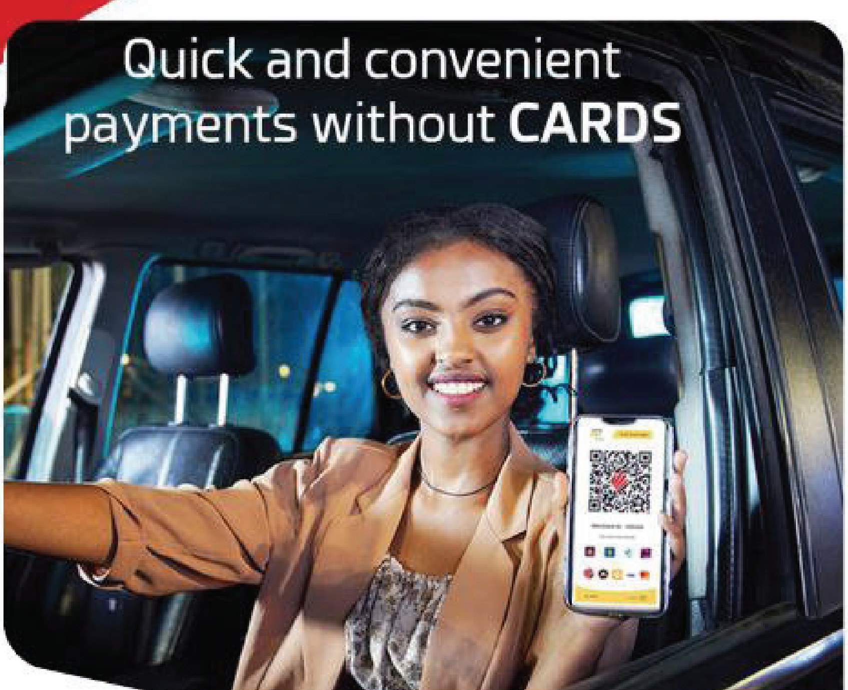
Gadaa Bank's Board of Directors and the Executive Management would like to seize this opportunity to express their gratitude to the esteemed customers of the Bank, shareholders, employees and the National Bank of Ethiopia, the Federal Document Authentication &Registration Services and the unstated stakeholders for their unreserved assistance in enabling the Bank to achieve its objectives.

Discussion with Shareholders and customers

Partnership with different business Entities

GADAA SERVICES

SCHOOL PAY



GADAA QR PAYMENT

AUDITOR'S REPORT 2023/24

IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2024

Directors and professional advisers	37
Report of the directors	38
Statement of directors' responsibilities	39
Independent auditor's report	40-41
Statement of profit or loss and other comprehensive income	42
Statement of financial position	43
Statement of changes in equity	44
Statement of cash flows	45
Notes to the financial statements	46-123

Gadaa Bank S.C
Financial Statements
Directors, professional advisers and registered office
For the year ended 30 June 2024

Company Registration Number
LBB/029/2022

Directors	**Posisition**	**Assignment Date**
Dr Hassen Hussien Kedir	*Chairperson*	*5-Aug-2021*
Ob. Hailu Ifa Gonda	*Deputy chairperson*	*5-Aug-2021*
Dr Berhanu Assefa Demisie	*Non-Executive Director*	*5-Aug-2021*
Dr Degefa Duresa	*Non-Executive Director*	*5-Aug-2021*
Ob. Hamdino Mideso Woya	*Non-Executive Director*	*5-Aug-2021*
Ob. Alazar Adula Yatene	*Non-Executive Director*	*5-Aug-2021*
Ob. Wasihun Amenu Tiyiti	*Non-Executive Director*	*5-Aug-2021*
Eng. Abdo Geleto Aneto	*Non-Executive Director*	*5-Aug-2021*
Ad. Semira Mohammed Abdela	*Non-Executive Director*	*5-Aug-2021*
Ob. Shiferaw Rufe Bodo	*Non-Executive Director*	*5-Aug-2021*
Dr Gutu Tesso Boka	*Non-Executive Director*	*15-Dec-2023*
Ob. Geleta Daba Afata	*Company Secretary*	*7-Aug-2023*

Management Membes

Ob. Wolde Bulto Adugna	*Chief Executive Officer*	*10-May-2022*
Ob. Fati Haji Abafogi	*Chief IT Officer*	*21-Jul-2022*
Ob. Legese Jada Bikila	*Chief Internal Audit*	*29-Dec-2022*
Ob. Dereje Mengistu Abajifar	*Chief Risk and Compliance*	*29-Dec-2022*
Ob. Eshetu Deressa Wirtu	*Chief Customer Experience*	*17-Nov-2023*
Ob. Abduljebar Kedir Jiru	*Executive Director,IFB*	*4-Nov-2022*
Ad. Tenaye Aklilu Worku	*Director, Finance Management Dep*	*6-Jun-2022*
Ob. Ifa Abdisa Horata	*Director, Digital Banking Departme*	*21-Jul-2022*
Ob. Yirgalem Teshome Ketema	*Director, IT Department*	*21-Jul-2022*
Ob. Gudeta Gelana Chemeda	*Director, Personal & SME Banking L*	*21-Jul-2022*
Ob. Fetene Alemu Negeri	*Director, Promotion & Public Relatic*	*1-Aug-2022*
Ob. Robera Wokgari Negasa	*Director, Credit Department*	*8-Aug-2022*
Ob. Debebe Feyisa Aredo	*Director, Strategy and Research De*	*8-Aug-2022*
Ob. Ulfata Regasa Idato	*Director, Human Capital Manageme*	*1-Sep-2022*
Ob. Milky Tenkolu Bune	*Director, International Banking Ser*	*1-Sep-2022*
Ob. Fekadu Urgesa Megersa	*Director, Procurement & Facility Ma*	*1-Sep-2022*
Ad. Sebasegel Seyoum Gemeda	*Director, Corporate & Institutional*	*14-Nov-2022*
Ob. Muleta Debel Wakjira	*Director, Legal Service*	*20-Nov-2022*
Ob. Fedesa Woreti Gelalcha	*Director, Information System Secu*	*7-Mar-2023*

Independent Auditor
Tewodros & Fikre Audit Service Partnership
Bole Road-Dembel City Center P.O.Box 8118
Addis Ababa, Ethiopia

Corporate Office

Gadaa Bank Sc
Gotera
Infront of Wongelawit Building
P.O Box 31996
Website: www.gadaabank.com.et
Addis Ababa, Ethiopia

Company Secretary
Obbo Geleta Daba

Gadaa Bank S.C
Financial Statements
Report of the directors
For the year ended 30 June 2024

The Directors submit their report together with the financial statements for the period ended 30 June 2024 to the share holders of Gadaa Bank share company ("GB or the Bank"). This report discloses the financial performance of the Bank.

Incorporation and address

Gadaa Bank was established in Ethiopia in 2022 in accordance with the Commercial Code of Ethiopia 1243/2021 and licensed by the National Bank of Ethiopia with the objective to engage in banking services in accordance with the Licensing and Supervision of Banking Business Proclamation No. 592/2008. The Bank commenced operations On 22 December 2022 and is domiciled in Ethiopia.

Principal activities

The Bank is principally invisaged to provide diverse range of financial products and services to a Wholesale, retail and Small and Medium Enterprises (SME) clients base in Ethiopia Market; both for conventional and interest free banking(IFB) customers.

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 comprensive income. The loss for the year has been transferred to retained earnings and Risk Reserve. The summarised results are presented below.

	2024 Birr'000	**2023 Birr'000**
Revenue (Interest Income, Commission and Operating In	790,564	111,438
Profit/Loss Before Tax	101,269	(134,836)
Income Tax Expense	(11,118)	50,544
Profit/Loss for the Year	90,151	(84,292)
Other Comprehensive Income / (Loss) net of taxes	115,570	(2,942)
Total comprehensive income / (loss) for the year	**205,721**	**(87,234)**
Earning Per Share	**0.08**	**(0.09)**

Directors

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

Dr Hassen Hussien
Chairperson,Board of Directors
October 24,2024

Gadaa Bank S.C
Financial Statements
Statement of Directors' Responsibilities
For the year ended 30 June 2024

The Bank's Management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") adopted for the first time, the Commercial Code of Ethiopia 1243/2021, the directives issued by the National Bank of Ethiopia and 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 Accounting and Audit Board of Ethiopia to determine

The Bank's directors accept 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.

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 Bank 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 svstems of internal financial control.

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

Signed on behalf of the Directors by:

Dr Hassen Hussien
Chairperson,Board of Directors
14-Oct-24

ቴዎድሮስ እና ፍቅሬ የኦዲት አገልግሎት
□ኅብረት ሽርክና ማህበር

TEWODROS AND FIKRE AUDIT SERVICES PARTNERSHIP CHARTERED CERTIFIED ACCOUNTANTS

Partners
Tewodros Hailu, M.A, FCCA & Fikre Menta, M.A, FCCA

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

OPINION

We have audited the accompanying financial statements of GADAA BANK SHARE COMPANY which comprise the statement of profit and loss and other comprehensive income for the year ended 30 June 2024, statement of financial position as at 30 June 2024, statement of changing equity and statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of GADAA BANK SHARE COMPANY as at 30 June 2024 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by IASB.

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

i. Pursuant to Article 349 (1) of the Commercial Code of Ethiopia, 2013 E.C and based on our reviews of the board of directors' report, we have not noted any matter that we may wish to bring to your attention.
ii. Pursuant to article 349 (2) of the commercial code of Ethiopia, 2013 E.C, We recommend the financial statements be approved.

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

Key audit 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; we do not provide a separate opinion on these matters. We have determined that there are key audit matters to be communicated in our report.

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

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

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

Auditors Responsibility for the Audit of the financial Statements

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

Tewodros and Fikre Audit Services
Partnership
Chartered Certified Accountants

October 21,2024
Addis Ababa Ethiopia

Accounting and auditing Board of Ethiopia
Original Copy Submitted to the board

Certified Auditors in Ethiopia
Tewodros and Fikre Audit Service Partnership

W.A BAANKII GADAA
No. 01
GADAA BANK S.C.

Gadaa Bank S.C
Financial Statements
Statement of Profit or Loss and Other comprehensive Income
For the year ended 30 June 2024

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
Interest income	5	281,667	27,656
Interest Income on FTD & Treasury Bond	5	72,047	35,988
Interest expense	6	(110,267)	(9,243)
Net interest income		**243,446**	**54,401**
Commission income	7	383,630	40,208
Commission expense	7	-	-
Net fees and commission income		**383,630**	**40,208**
Other operating income	8	53,220	7,586
Total operating income		**680,297**	**102,194**
Loan, cash, and NBE bills & Bond impairment	9	(22,635)	(8,161)
issued		(515)	-
Net operating income		**657,147**	**94,034**
Personnel expenses	10	(296,272)	(124,684)
Board of Directors' Allowance		(1,220)	(1,240)
Amortisation of intangible assets		(3,751)	-
Depreciation of property, plant and equipmen	20	(48,021)	(19,855)
Other operating expenses	11	(206,615)	(83,090)
Total Other Operating Expense		**(555,878)**	**(228,870)**
Profit/Loss before tax		**101,269**	**(134,836)**
Income tax	12a	**(11,118)**	**50,544**
Profit/Loss for the year		**90,151**	**(84,292)**
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations net of 30% tax	22a	(1,268)	(2,942)
Revaluation Gain-Equity Investment net of 30	16	116,839	-
		115,570	(2,942)
Total comprehensive income for the		**205,721**	**(87,234)**
Basic Earnings per share (Birr)	24	0.08	(0.09)

The notes on pages 7 to 77 are an integral part of these financial statements.

Gadaa Bank S.C

Financial Statements
Statement of Financial Position
Total Liabilities and Equity
For the year ended 30 June 2024

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
ASSETS			
Cash and balances with banks	13	964,309	731,850
Loans and advances to customers	14	2,416,909	858,107
Interest free Financing	15	51,913	-
Investment securities:			
-Financial asset at fair value through (	16	226,912	2,000
-Financial assets at Amortized cost	17	459,396	102,134
Other assets	18	281,253	74,603
Right-of-use assets	32	375,316	239,209
Intangible assets	19	63,240	38,904
Property, plant and equipment	20	716,801	590,779
Deferred Tax Asset	12e	49,299	52,781
Total assets		**5,605,348**	**2,690,366**
LIABILITIES			
Deposits from customers	21	4,006,911	1,610,907
Lease liabilities	32	143,622	90,235
Other liabilities	22	186,700	176,150
Provisions	31b	515	-
Retirement benefit obligation	22a	13,014	4,264
Deferred tax liability	12f	58,160	994
Total liabilities		**4,408,922**	**1,882,549**
EQUITY			
Share capital	23	1,074,406	890,150
Retained earnings	25	(23,375)	(79,871)
Legal reserve	26	22,538	-
Risk reserve	27	10,228	480
Other reserve	28	112,628	(2,942)
Total equity		**1,196,425**	**807,817**
Total Liabilities and Equity		**5,605,348**	**2,690,366**

The notes on pages 7 to 77 are an integral part of these financial

The financial statements were approved and authorized for issue by the board of directors on October 24, 2024 and were signed on its behalf by:

Dr. Hassen Hussien Kedir
Chairperson, Board of Directors

Wolde Bulto Adugna
Chief Executive Officer(CE(

Accounting and auditing Board of Ethiopia
Original Copy Submitted to the board

Certified Auditors in Ethiopia
Tewodros and ... Audit Service Partnership

BAANKII GADAA · GADAA BANK S.C. No. 01

Gadaa Bank S.C

Financial Statements
Statement of changes in equity
For the year ended 30 June 2024

	Notes	Share capital Birr'000	Retained earnings Birr'000	Legal reserve Birr'000	Other reserve Birr'000	Risk Reserve Birr'000	Total Birr'000
As at 30 June 2022		**562,419**	**4,901**				**567,320**
As at 1 July 2022		**562,419**	**4,901**	**-**	**-**	**-**	**567,320**
							-
Profir/Loss for the period	25		(84,292)				(84,292)
Other comprehensive income:							-
Re-measurement gains on defined benefit plans (net of tax)	22b				(2,942)	-	(2,942)
Issue of shares	23	327,731	-	-	-	-	327,731
Transfer to Risk Reserve			(480)			480	-
As at 30 June 2023		**890,150**	**(79,871)**	**-**	**(2,942)**	**480**	**807,817**
As at 1 July 2023		**890,150**	**(79,871)**	**-**	**(2,942)**	**480**	**807,817**
Profit for the period	25		90,151				90,151
Fair value gain-Equity investment	16				116,839		116,839
Re-measurement gains/loss on defined benefit plans (net of tax)	22a				(1,268)		(1,268)
Issue of shares	23	184,256	-	-	-	-	184,256
Director's share of profit	24	-	(1,369)	-	-	-	(1,369)
Transfer to Risk Reserve	27	-	(9,748)	-	-	9,748	-
Transfer to Other Reserve	28					-	-
Transfer to legal reserve		-	(22,538)	22,538	-	-	-
		184,256	56,497	22,538	115,570	9,748	388,608
As at 30 June 2024		**1,074,406**	**(23,375)**	**22,538**	**112,628**	**10,228**	**1,196,425**

The notes on pages 7 to 77 are an integral part of these financial statements.

Gadaa Bank S.C
Financial Statements
Statement of cash flows
For the year ended 30 June 2024

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash flows from operating activities			
Cash generated from operations	29	871,061	763,236
Net cash (outflow)/inflow from operating activities		**871,061**	**763,236**
Cash flows from investing activities			
Purchase of NBE bills and bonds	17	(357,294)	(102,134)
Purchase of equity investments	16	(58,000)	(2,000)
Purchase of property, plant and equipment	20	(174,043)	(605,270)
Pre-operational Cost		-	
Reclassification VAT			
Right-of-use assets	20a	(205,390)	(262,261)
Purchase of Intangible Asset	19	(28,087)	(38,904)
Net cash (outflow)/inflow from investing activities		**(822,815)**	**(1,010,569)**
Cash flows from financing activities			
Proceeds from borrowings	21	-	
Proceeds from premium on sales of shares		-	-
Proceeds from issues of shares	23	184,256	327,731
Net cash (outflow)/inflow from financing activities		**184,256**	**327,731**
Net increase/(decrease) in cash and cash equivalents		**232,502**	**80,398**
Cash and cash equivalents at the beginning of the	13	731,849	651,451
Cash and cash equivalents at the end of the		**964,351**	**731,849**

The notes on pages 7 to 77 are an integral part of these financial statements.

1. General information

Gadaa Bank SC ("GB or the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established on 26 April 2022 in accordance with the provisions of the Commercial code of Ethiopia of 1243/2021 and the Licensing and Supervision of Banking Business Proclamation No. 592/2008. The Bank's registered office is Kirkos Sub-city Woreda 03, House # 745 around Gotera infront of Wangelawit Building, Addis Ababa, Ethiopia

The Bank is principally envisaged to provide diverse range of financial products and services to a Wholesale, retail and Small and Medium Enterprises (SME) clients base in Ethiopia Market; both for conventional and interest free banking(IFB) customers.

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The financial statements for the year ended 30 June, 2024 (the Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS adopted for the first time as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate. The financial statements comprise;

Statement of Profit or Loss and Other Comprehensive Income

Statement of Financial Position

Statement of Changes in Equity

Statement of Cash Flows

Notes to the Financial Statements

2.2.1 Statement of compliance

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Director 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. Director 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 3. These are the first set of financial statements prepared in accordance with IFRS as issued by IASB.

2.2.2 Basis of measurement

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

I. Fair value through other comprehensive income and fair value through profit and loss, financial assets and financial liabilities (including derivative instruments) and investment properties measured at fair value

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

III. 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.

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

2.2.3 Going concern

The Company has adequate resources to continue in operation for the foreseeable future. For this reason, the managements continue to adopt going concern assumption in preparing the financial statements. The current credit facilities and adequate resources of the company provide sufficient funds to meet the present requirements of its existing businesses and operations.

2.3 Changes in accounting policies and disclosures

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

a. New standard, amendments, interpretations effective and adopted during the year

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2023 and earlier applications are permitted and have not been applied in preparing these financial statements.

New Standards or amendments	Effective Date
The amendment to IAS 1"Non-current Liabilities with Covenants "	January 1,2024
The amendment to IFRS 16 "Lease Liability in a Sale and Leaseback "	January 1,2024
The amendment to IAS 7 and IFRS 7 "Supplier Finance Arrangements"	January 1,2024
New Standard IFRS S1 " General Requirements for Disclosure of Sustainability-related Financial Information"	January 1,2024
New Standard IFRS S2 "Climate-related Disclosures"	January 1,2024

1. Non-current Liabilities with Covenants (IAS 1)

The amendments to IAS 1 clarify the classification of liabilities as current or non-current, focusing on an entity's right to defer settlement, particularly when covenants are involved. A liability is classified as non-current if the entity has a substantive right to defer settlement for at least 12 months after the reporting date, considering any covenant terms. The amendments require entities to assess compliance with covenants at the reporting date, and if the right to defer settlement is contingent on compliance with future covenants within 12 months, entities must disclose this information. These changes, effective from January 1, 2024, as of the reporting date, the Company has not Non-Current Liabilities with Covenants.

2. Lease Liability in a Sale and Leaseback Amendments to (IFRS 16)

In September 2022, the Board issued Lease Liability in a Sale and Leaseback, which added subsequent measurement requirements for sale and leaseback transaction which became effective in January 2024. Sale and leaseback transactions is when an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease.

As of the reporting date, the Company has not entered into any sale and leaseback transactions. Therefore, the amendments to IFRS 16 regarding the disclosure and accounting treatment for such transactions do not have an impact on the Company's financial statements for the current reporting period.

3. Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

As of May 2023, new disclosure requirements have been issued, which take effect on January 1, 2024 which is Supplier finance arrangements, also known as reverse factoring, involve a financial institution paying an entity's suppliers on behalf of the entity, with the entity repaying the financial institution at a later date. Entities are now required to disclose the nature of these arrangements, provide quantitative information, and explain the impact of these arrangements on the entity's cash flows. As of the reporting date, the Company has not entered into such financing arrangements.

4. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 establishes a framework for sustainability-related financial disclosures, focusing on providing relevant and material information about sustainability risks and opportunities that may affect an organization's financial performance. It requires entities to disclose their governance structure, risk management processes, and strategies for addressing sustainability-related issues, emphasizing the need for materiality assessments tailored to stakeholder needs. Key disclosures should include an overview of significant sustainability risks and opportunities, metrics and targets for performance evaluation, and an analysis of their impact on financial health. However, it is important to note that we did not apply IFRS S1 in our 2024 annual report.

5. IFRS S2 Climate-related Disclosures

The IFRS Sustainability Disclosure Standards are developed by the International Sustainability Standards Board (ISSB), an independent standard-setting body within the IFRS Foundation. The objective of IFRS S2 Climate-related Disclosures is to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. It is collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2024. The bank has not been applied in preparing these financial statements of 2024.

b. New Standards, amendments, interpretations issued but not yet effective.

The following accounting pronouncements were not effective as of June 30, 2024 and therefore have not been applied in preparing these financial statements.

Accounting and auditing Board of Ethiopia
Original Copy Submitted to the board

Certified Auditors in Ethiopia
Tewodros and ... Audit Service Partnership

W.A BAANKII GADAA No. 01 GADAA BANK S.C.

New Standards or amendments	Effective Date
Amendments to IAS 21 “Lack of Exchangeability”	January 1, 2025
Amendments to IFRS 9 and IFRS 7 “the Classification and Measurement of Financial Instruments”	January 1, 2026
New Standard IFRS 18 “Presentation and Disclosure in Financial Statements”	January 1, 2027
New Standard IFRS 19 “Subsidiaries without Public Accountability”	January 1, 2027

Summary of new standards, amendments and interpretations issued but not adopted. The bank does not plan to adopt these standards early. These are summarized below;

1. Lack of Exchangeability (Amendments to IAS 21)

The amendments to IAS 21, “The Effects of Changes in Foreign Exchange Rates,” address the concept of “Lack of Exchangeability.” This refers to a situation where an entity is unable to exchange its currency for another currency at a prevailing market rate due to restrictions or limitations.

2. Amendments to the Classification and Measurement of Financial Instruments-Amendments to IFRS 9 and IFRS 7

The Amendments to IFRS 9 and IFRS 7 refine the classification and measurement of financial instruments for clarity and consistency. Key changes include clarifications on the SPPI (Solely Payments of Principal and Interest) test, particularly regarding ESG-linked cash flow variability, and clearer guidelines on derecognition and modification of financial assets and liabilities. The amendments also refine the treatment of equity instruments at FVOCI and offer more precise guidance on impairment models and the fair value option for financial liabilities, focusing on credit risk reporting.

3. IFRS 19 Subsidiaries without Public Accountability

IFRS 19 Subsidiaries without Public Accountability: Disclosures is a proposed standard aimed at reducing the disclosure burden for subsidiaries that apply full IFRS but do not have public accountability (i.e., they are not publicly traded or financial institutions). It allows these subsidiaries to adopt simplified disclosure requirements while still following full IFRS recognition and measurement rules. The objective is to lower the cost and complexity of preparing financial statements without compromising the usefulness of the information for stakeholders like parent companies and auditors. This proposal is part of IASB’s effort to streamline financial reporting for non-public entities.

4. IFRS 18 Presentation and Disclosure in Financial Statements

FRS 18 is a new accounting standard that outlines the presentation and disclosure requirements for financial statements. It mandates a statement of financial position at the beginning of the preceding period if there are retrospective adjustments or reclassifications. Entities can use alternative names for main statements and customize totals, subtotals, and line items, as long as they accurately represent the characteristics of the items. The standard also provides guidelines for grouping information and determining whether to include details in primary financial statements or as note.

2.4 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 (Birr).

b) Transactions and balances

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

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

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

2.5 Recognition of income and expenses

Interest income and expense are recognized in the income statement using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortized cost of the financial liability, including early redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return.

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

The Bank, earns income from interest on loans given for domestic trade and services, building and construction, manufacturing, agriculture merchandise and personal loans. Other incomes include margins on letter of credits and guarantees.

2.5.1 Interest and similar income and expense

For all government bills and bonds and interest bearing financial assets measured at amortized cost interest income or expense is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR), but not future credit losses.

The carrying amount of the government bills and bonds is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

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

2.5.2 Fees and commission income and expense

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income (commission on foreign transactions, advising commission, extension commission) are recognized as the related services are performed.

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

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

2.5.3 Interest paid on borrowings, deposits and others

Interest paid on borrowings and deposits are calculated on 365 days' basis (except for some treasury instruments which are calculated on 364 days' basis) in a year and recognized on accrual basis. Interest on lease liabilities are accounted for as per IFRS 16 Leases.

2.5.4 Dividend income

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

2.5.5 Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

2.5.6 Foreign exchange revaluation gains or losses

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

The monetary assets and liabilities include financial assets within Cash and cash equivalent, foreign currency deposits.

2.6 Financial instruments - initial recognition and subsequent measurement

2.6.1 Financial assets

Initial recognition and measurement

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

I. Financial instruments measured at amortized cost

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

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

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

II. Financial assets measured at fair value through other comprehensive income

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

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

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

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

III. Financial instruments measured at fair value through profit or loss

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

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

Business model assessment

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

The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

How the performance of the portfolio is evaluated and reported to the Bank's management;

The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

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

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

Contingent events that would change the amount and timing of cash flows;

Leverage features;

Prepayment and extension terms;

Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and

Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

If the business model under which the bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the bank. During the current financial year and previous accounting period there was no change in the business model under which the bank holds financial assets. Therefore, no reclassifications were made. The table below summarizes the accounting treatment on reclassification:

From	To	Requirement
Amortized Cost	FVTPL	Measure fair value at reclassification date and recognize difference between fair value and amortized cost in profit or loss.
FVTPL	Amortized Cost	Fair value at the reclassification date becomes the new gross carrying amount.
Amortized Cost	FVOCI	Measure fair value at reclassification date and recognize any difference in OCI.
FVOCI	Amortized Cost	Cumulative gain or losses previously recognized in OCI is removed from equity and applied against the fair value of the financial asset at the reclassification date.
FVTPL	FVOCI	Asset continues to be measured at fair value but subsequent gains and losses are recognized in OCI rather than profit or loss.
FVOCI	FVTPL	Asset continues to be recognized at fair value and the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Derecognition of financial assets

The Bank shall derecognize a financial asset when:

The contractual right to the cash flows from the financial asset expires, or

It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or

Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

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

Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and including those arising from fraud. Expected credit losses are recognized for loans and advances to customers and banks, other financial assets held at amortized cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the bank at the point of default after taking into account the value of any collateral held, repayments, or other mitigates of loss and including the impact of discounting using the effective interest rate.

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

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

Financial assets that are debt instruments;

Lease receivables;

Financial guarantee contracts issued; and

Loan commitments issued.

No impairment loss shall be recognized on equity investments.

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

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

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

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

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

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

(i) Measurement of ECL

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

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

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

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

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

(ii) Restructured financial assets

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

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

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

(iii) Credit-impaired financial assets

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

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

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

Significant financial difficulty of the borrower or issuer;

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

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

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

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

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

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

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

For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

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

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

(V) Write-off

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

Recoveries of amounts previously written off shall be included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(Vi) Financial guarantees

Financial guarantees; are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Types of Letter of Guarantees Issued by the bank: -

Bid bond

Suppliers' Credit Guarantee

Advance Payment Guarantee

Performance Bond

Retention Guarantee

Customs Duty Guarantee

Initial accounting for financial guarantees by the issuer

The Bank initially measures financial guarantee contracts at fair value. If the financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, then its fair value at inception is likely to equal the premium received unless there is evidence to the contrary

Subsequent measurement

Financial guarantees are subsequently measured at the higher of:

the amount of the loss allowance determined in accordance with IFRS 9 and

the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 1

(vii) Non-integral financial guarantee contracts

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

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

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

Collateral valuation

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

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

Collateral repossessed

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

2.6.2 Financial liabilities

Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Bank's financial liabilities include customer's deposit, margin held on letters of credit and other liabilities. Interest expenditure is recognized in interest and similar expense.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at amortized cost

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss but are classified as financial liabilities at amortized cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate (EIR). Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

The Bank's financial liabilities carried at amortized cost comprise of customer deposits, margin held on letter of credit and other liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where The Bank has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Bank has also entered 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.

2.7 Interest free Financing and investment products

Gadaa Bank S.c has begun interest free banking services in June 6, 2023, focusing on deposits, financing, as well as investment. Services include Wadiya accounts for cash, Wadiya current accounts for cheques, Muharaba investment savings account and Haji Umra account to save for the pilgrimage to Mecca, Saudi Arabia.

Among its financing services are Muharaba financing, where the bank delivers any good after receiving the full money and specification of the good from its customer; Ejira financing, in which the customer renders payment gradually after the bank delivers the good; Estisna financing for construction, as well as Selam financing, where the bank gives agricultural inputs to take the equivalent amount after harvest.

The other area of interest free banking is investment and includes Musharaka investment, which is a joint venture between the bank and the customer."

Definition of key Terms

1. Wadiah Saving Account

Wadiah is amanah (safe custody based on trusts) where IFBW shall be fully responsible for the deposited amount to be available on demand.

Wadia (safe keeping) account is an account at which a customer deposits its fund and IFBW guarantees refund of the entire amount of deposit, or any part of the outstanding amount, without the obligation to pay any additional return on it, when the account holder demands it.

2. Wadia Demand Deposit Account

Wadia demand deposit account Is the type of deposit that do not give any returns to the depositor and can be withdrawn by the depositor up on demand. For this deposits the relationship between the IFBW and the depositor is that of debtor and creditor.

3. Hadji-Umraha Saving Account

Hadji-Umraha Saving account is safe custody based on trusts of the customer to be deposited regularly for the purpose of travelling to Mecca Medina, where IFBW shall be fully responsible for the deposited amount to be available on demand. Haji-Umura Savings Account is an account which is used to make deposit by customer for the purpose of Haji-Umura pilgrimage

4. Unrestricted Investment Accounts

It is a type of deposits where full discretion is given to the IFBW to utilize the fund to finance and /or invest in income generating assets.

5. Restricted Investment Accounts

It is a type of deposits where investment account holder provides specific investment mandate to the IFBW to utilize the fund to finance and/or invest in specific income generating assets.

6. Ijarah

It is a contract between IFBW and customer in which IFBW transfers the usufruct of an asset (right to use and drive profit from a property belonging to another, provided that the property remains uninjured and undiminished) but not its ownership to customer for an agreed period at an agreed rental/lease payment.

7. Istisna'a

It is a sale contract between the ultimate purchaser and seller whereby the seller, based on an order from the purchaser, undertakes to have manufactured/build the subject matter of the contract according to specification and sell it to the purchase for an agreed upon price and method of settlement whether that at time of contracting, by installments or deferred to a specific future time.

7.1 Parallel Istisna'a

It is a parallel sale contract concluded by the seller with a builder to fulfill his/her contractual obligations in the first Istisna'a contract.

8. Murabaha (Cost Plus)

It is a sale of goods with an agreed upon profit mark up on the cost between customer and IFBW whereby IFBW purchases the goods ordered by a customer from a third party and then sells these goods to the same customer.

9. Mudarabah

It is a partnership between investment account holders as providers of funds and entrepreneur as Mudarabah whereby both parties agreed to share profit as per their agreement and the losses being born by the provider of fund provided that the loss is not occurred due to negligence and mismanagement on the part of entrepreneur (Mudarib).

10. Mutharika (joint venture)

It is a partnership between IFBW and its customer whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in existing one, on the basis of constant or diminishing ownership, with objective of sharing profit as per their agreement and loss in accordance with their capital contributions.

11. Salam

It is a purchase of a commodity for future delivery in exchange for immediate payment according to specified conditions or sale of a commodity for future delivery in exchange for immediate payment.

11.1 Parallel Salam

It is a Salam contract whereby the seller depends, for executing his /her obligation, on receiving what is due to him/her-in his/her capacity as purchaser-from a sale in a previous Salam contract, without making the execution of the second Salam contract dependent on the execution of the first Salam contract.

2.8 Cash and cash equivalents

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

2.9. Property, plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met.

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

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

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or at the expiration of a lease contract for right of use assets. Equipment are determined by comparing the net proceeds from disposal Gains and losses arising on disposal of an item of property and with the carrying amount of the item and are recognized net within 'other operating income' in profit or loss.

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

Asset class	Depreciation rate (years)	Residual values (%)
Buildings	50	5%
Motor vehicles	10	5%
Furniture & fittings	10-20	1%
Computer and data storage	7	1%
Equipment	5-10	1%

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.

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

2.10 Intangible assets

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

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

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

- Swift software – 6 years
- Core Banking software – 6 years
- Mobile and Agent Banking software – 6 years

2.11 Non-current assets (or disposal Banks) held for sale

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

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

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

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

2.12 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

2.13 Other assets

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

(a) Prepayment

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

(b) Other receivables

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

2.14 Fair value measurement

Fair value under IFRS 13, Fair Value Measurement ('IFRS 13') is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on exchanges (for example, NSE, BVRM, GSE) and quotes from approved bond market makers.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer or broker, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met,

the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the consolidated statement of financial position.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

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:

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

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

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

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

2.15 Employee benefits

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

(a) Defined contribution plan

The Bank operates two defined contribution plans;

i) Pension scheme in line with the provisions of Ethiopian private organization employees' pension proclamation No.1268/2022. Funding under the scheme is 7% and 11% by employees and the Bank respectively;

ii) Provident fund contribution, funding under this scheme is 8% and 12% by employees and the Bank respectively; based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

(b) Defined benefit plan

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

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past-service costs are recognized immediately in income.

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

(c) Termination benefits

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

Certified Auditors in Ethiopia

Tewodros and Tre Auditing Service Partnership

GADAA BANK S.C.

(d) Profit-sharing and bonus plans

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

2.16 Provisions

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

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

2.17 Share capital

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

2.18 Earnings per share

The Bank presents basic earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period.

2.19 Government grants

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

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

2.20 Leases

Under IFRS 16, a lessor is required to determine whether a lease is a finance or operating lease. A lessee is not required to make this determination.

(a) Bank as a lessee

The bank assesses at initiation of a contract whether the contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange of consideration, then the bank considers the contract as a lease contract. The bank as a lessee applies a single recognition and measurement approach for all leases, except for short-term leases, or, and lease of low value of assets.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the bank. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the banks incremental borrowing rate appropriate for the right-of-use asset arising from the lease. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise IT equipment and small items of office furniture.

(b) Right-of-use assets (ROU):

The bank recognizes the right-of-use assets (RoU) at the commencement date of the lease (i.e. the date the underlying asset is available for use). RoU assets are measured at cost less any accumulated depreciation and impairment of losses and adjusted for any measurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payment made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight line basis over the lease term, or remaining period of the lease term.

The bank assessed all lease contracts active in 2024 and recognized as RoU of assets of all leases, except short term and low value of assets as per the Banks' own policy set as per IAS 16 and IFRS 16.

(c) Lease Liabilities (Bank as a lessee):

At the commencement of the lease, the bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed and variable lease payment (less any adjustment for initial payment), and amount is expected to be paid under residual value of guarantees.

(d) Bank as a lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognized as a receivable, net of allowances for expected credit losses, within loans and advances to banks and customers. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance lease income. Finance lease income is recognized in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

Operating lease assets are included within property, plant and equipment at cost and depreciated over their estimated useful lives, which equates to the lives of the leases, after taking into account anticipated residual values. Operating lease rental income is recognized on a straight-line basis over the life of the lease. The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

2.21 Income taxation

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

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

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

- Capital Management Note 4.5
- Financial risk Management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.5.2

3.1 Judgements

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

3.2 Estimates and assumptions uncertainties

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

3.2.1 Impairment losses on loans and advances (on balance sheet)

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as nonperforming. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The bank also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are ranked together for the purpose of determining the collective impairment in the bank.

The following are key estimations that the directors have used in the process of applying the banks accounting policies and that have the most significant effect on the amounts recognized in financial statements:

I. Probability of default: probability of default (PD) estimates the possibility of a loan facility moving from the performing status (stage 1) to the non-performing status (stage 3). For impairment purposes, the PD parameter is estimated using a transition matrix multiplication approach that estimates the movement of loan amounts from one bucket to the next between two subsequent time periods.

II. The loss given default (LGD) is a measure of how much (in form of a percentage) the Bank is expected to lose in the event that default events occur. This can be estimated using either collateral, in instances where the customer has collateral against the debt instrument that they have undertaken with the Bank or an analysis of the historical cash collections after the default event, for cases that the debt instrument is not secured.

III. Exposure at Default (EAD): EAD modelling estimates annual outstanding exposure on each loan facility over the remaining lifetime from the reporting period. The EAD for each period is calculated based on the contractual cash flows of each loan account using the reducing balance method.

The exposure at default assumed by management to be the mid-year EAD for facilities with monthly and quarterly repayment schedules. This is to reflect the assumption of uniform distribution of default events throughout the year. For semi - annual and annual repayment schedules, exposure at default will be assumed by management to be the reporting date EAD.

IV. significant increase in credit risk (SICR: SICR is based on migration from stage 1 to stage 2. As per the Bank's loan listing classification, these are loans that experience migration from "Pass" to "Special Mention" as a result of arrears of over 30 days past. due.

3.2.2 Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.6.3 for further disclosures.

3.2.3 Retirement benefits

The Bank have a comprehensive remuneration system based on our HR policy. It combines a fixed salary that reflects the individual's role and level of responsibility along with other benefits. In addition, the Bank also offers provident fund, gratuity, staff loan and other benefits such as banking products and services and medical benefits for employees and dependents.

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

Inflation rate: the majority of the plans' benefit obligations are linked to inflation both in deferment and once in payment. Higher inflation will lead to higher liabilities although this will be materially offset by holdings of inflation-linked gilts and, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation.

3.2.4 Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on Director'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.

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

3.2.5 Impairment of non-financial assets

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

3.2.6 Taxes

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

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

4. Financial risk management

4.1 Introduction

This note explains the Bank's exposure to financial risks and how these risks could affect the Bank's future financial performance. The Bank has documented financial risk management policies. These policies set out the Bank's overall business strategies and its risk management philosophy. The Bank's overall financial risk management Programme seeks to minimize potential adverse effects of financial performance of the Bank. The Board of Directors provides written principles for overall financial risk management and written policies covering specific areas, such as credit risk, market risk (including foreign exchange risk, interest rate risk and equity price risk) and liquidity risk. Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Bank's policy guidelines are complied with. Risk management is carried out by the Bank Risk team under the policies approved by the Board of Directors.

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

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

4.1.1 Risk management structure

The Board of Directors have the ultimate responsibility for establishing and ensuring the effective functioning of the Risk and Compliance Management activities of the Bank.

The board risk and compliance management sub-committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and risk appetite. It is also responsible for performing compliance monitoring and testing, preparing periodic risk and compliance exposure reports to executive management and the board of directors.

The Executive Management is responsible for translating and implementing the Bank's risk management strategy, priorities and policies as approved by the Board of Directors

The Bank's policy is that risk management processes throughout the Bank are assessed periodically by the management. This will help to adequately capture risk exposure, aggregate exposure of risk types and incorporate short run as well as long run impact on the Bank.

4.1.2 Risk measurement and reporting systems

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

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

4.1.3 Risk mitigation

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

The adequacy of these mitigates is tested on a periodic basis through administration of control self-assessment questionnaires, using a risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently audited as part of the review process.

4.2 Credit risk

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

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks 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.

4.2.1 Management of credit risk

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

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

(a) Probability of Default

This is the probability that an obligor or counterparty will default over a given period, usually one year. This can be calculated on portfolio by portfolio basis or collectively depending on availability of historical data.

(b) Loss Given Default

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate).

Our methods for estimating LGD includes both quantitative and qualitative factors.

(c)Exposure at Default

This represents the amount that is outstanding at the point of default. Its estimation includes the drawn amount and expected utilization of the undrawn commitment at default.

4.2.2 Expected credit loss measurement

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12- month and Lifetime ECL;

- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;

- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

- Impacts on the measurement of ECL due to changes made to models and assumptions;

- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

(a) Inputs, assumptions and techniques used for estimating impairment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

I. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.

II. If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.

III. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

IV. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

V. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

VI. POCI financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3)."

(b) Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

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 bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met.

The quantitative criteria is based on either absolute or relative changes in credit quality. In both cases, the bank is expected to specify the percentage change, for either 12-month or lifetime PDs in comparison to the corresponding 12-month or lifetime PDs as calculated at origination, respectively, that would indicate a significant increase in credit risk since origination.

(i) Forward transitions: Days past due Transition from Stage 1 to Stage 2 is based on the 30 days past due presumption.

Stage	Days Past Due
1	0 - 29
2	30 - 89
3	90+”

(ii) Forward transitions: Watch list & Restructure

The bank classifies accounts that are included on their Watch list or have been restructured as Stage 2 if the significant driver for the account being watch listed or restructured is due to a significant increase in credit risk.

(iii) Forward transitions: Classification

In addition to the days past due, the bank classifies accounts as either ‘Performing’, ‘Substandard’, ‘Doubtful’ or ‘Loss’.

This classification is considered together with days past due in determining the Stage classification. The table below summarizes the account classification and days past due.

Classification	Days Past Due
Performing (Current + Watch list)	0 - 89
Substandard	90- 179
Doubtful	180 - 360
Loss	365+

The internal rating systems described above focus more on credit-quality mapping from the inception of the lending.

Current: relates to assets classified as “Investment Grade” (no evident weakness).

Watch list: relates to items for which there is evidence of a weakness in the financial or operating condition of the obligor which requires management’s close attention.

Substandard: there is a well-defined weakness in the financial or operating condition of the obligor which jeopardizes the timely repayment of its obligations.

Doubtful: there are all of the weakness that are normally seen in a substandard credit with the additional characteristic that these weaknesses make full repayment unlikely.

Loss: These assets are considered uncollectible and of such little value that they should be fully written-off.

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(c) Credit risk grades

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

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

i). Term loan exposures

Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections.

Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance data from credit reference agencies, press articles, changes in external credit ratings. Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities, internally collected data on customer behavior, Affordability metrics.

ii). Overdraft exposures

Payment record this includes:

Overdue status as well as a range of variables about payment ratios

Utilization of the granted limit

Requests for and granting of forbearance

Existing and forecast changes in business, financial and economic conditions

(d) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to 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.

(e) Determining whether credit risk has increased significantly

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

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

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

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

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

The criteria are capable of identifying significant increases in credit risk before an exposure is in default

The criteria do not align with the point in time when an asset becomes 30 days past due;

The average time between the identification of a significant increase in credit risk and default appears reasonable;

Exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and

There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

(f) Definition of default

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

The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); - The borrower is more than 90 days past due on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations. In assessing whether a borrower is in default, the Bank considers indicators that are:

Qualitative: e.g. breaches of covenant;

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

Based on data developed internally and obtained from external sources.

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

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

(g) Incorporation of forward-looking information in the ECL models

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 Fitch Solutions formerly known as Business Monitor International, an external and independent market intelligence and research institution. This is in addition to industry –level, semi – annual NPL trends across statistically comparable sectors.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior management. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.

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

Sector	Macroeconomic factors
Cluster 1 Agriculture Consumer Loans Overdraft Interest Free Financing	Goods exports, USD
Cluster 2 Domestic Trade Services Mining and Energy Transport Health Merchandise Financial Services	-
Cluster 3 Building and Construction Hotel and Tourism Manufacturing and Production Industry Real Estate Housing and Construction	Gross domestic product, current prices (U.S. dollars)
Cluster 4 Export Import Advance against Import Bills International Trade	Goods debit (Imports)

Indicator	30-Jun-22	30-Jun-23	
Consumer price index inflation, 2010=100, ave	762.53	935.37	1,070.36
Exports of goods and services, USD	9,395.61	10,688.62	11,817.59
Government domestic debt, LCU	1,601,205.00	1,831,600.00	2,059,995.00
LCU/USD, ave	53.49	56.63	59.46
Nominal GDP, LCU	6,324,877.00	8,013,281.50	9,616,083.50
Private final consumption, LCU	4,706,090.50	5,637,459.50	6,537,715.00
Total domestic demand, LCU	6,554,527.00	7,774,859.50	9,014,880.00
Savings, LCU	1,139,737.50	1,333,875.50	1,571,133.50
Population	122,292,044.00	125,261,131.00	128,250,163.50
Consumer price index inflation, 2010=100, eop	757.19	892.81	999.41
M1, LCU	519,050.00	584,105.00	660,745.00
M2, LCU	1,669,935.00	1,932,335.00	2,247,120.00
Current expenditure, LCU	510,009.50	596,727.50	716,557.00
Goods imports, USD	15,797.50	16,432.50	17,418.50
Goods exports, USD	4,137.00	4,393.00	4,740.00
Current account balance, USD	(4,804.00)	(4,747.50)	(4,995.50)
Import cover months	1.72	1.89	2.02
Total household spending, LCU	5,494,617.24	6,584,552.36	7,636,051.11
Nominal GDP, USD	115,099.81	130,088.57	144,653.20
Real GDP, LCU (2010 prices)			1,172,494,000,000
Real GDP, USD (2010 prices)	71,549,973,629.00	76,139,934,488.00	81,368,948,479

Real GDP per capita, USD (2010 prices)	566.61	588.78	614.13
Nominal GDP, USD (PPP)	358,557,612,057.28	394,406,827,578.31	428,362,843,461
Private final consumption, USD	87,765.78	99,433.70	109,822.61
Private final consumption per capita, USD	0.00	0.00	0.00
Government final consumption, LCU	487,844.00	566,297.50	646,227.00
Government final consumption, USD	9,106.13	9,989.90	10,858.07
Exports of goods and services, LCU	503,898.00	605,980.50	703,534.00
Exports of goods and services per capita, USD	0.00	0.00	0.00
Imports of goods and services, LCU	887,821.00	1,004,878.50	1,106,430.00
Imports of goods and services, USD	16,574.61	17,735.38	18,597.80
Total domestic demand, USD	122,278.82	137,135.34	151,433.41
Total domestic demand per capita, USD	0.00	0.00	0.00
Unemployment, % of labour force, ave	3.24	3.28	3.21
Real effective exchange rate index	14.65	10.39	8.22
LCU/USD, eop	55.25	58.01	60.91
Total revenue, LCU	476,482.00	648,396.50	886,024.50
Total revenue, USD	8,876.82	11,411.97	14,856.05
Total expenditure, LCU	681,893.00	857,966.00	1,104,727.50
Total expenditure, USD	12,720.98	15,113.57	18,534.18
Current expenditure, USD	9,524.57	10,521.53	[illegible]
Budget balance, LCU	(205,410.50)	(209,569.00)	(218,703.50)

Budget balance, USD	(3,844.15)	(3,701.59)	(3,678.15)
Services imports, USD	6,267.00	6,696.50	7,182.50
Services exports, USD	5,569.00	5,897.50	6,246.00
Total reserves ex gold, USD	3,159.50	3,648.50	4,137.00
Total external debt stock, USD	40,111.50	44,666.50	49,383.50
Long-term external debt stock, USD	38,315.00	42,836.00	47,517.00
Public external debt stock, USD	38,315.00	42,836.00	47,517.00
Total government debt, USD	71,350.00	80,340.00	87,275.00
Total debt service, USD	2,525.54	2,884.18	3,181.48
Gross domestic product, constant prices	2,329.25	2,485.04	2,643.25
Gross domestic product, current prices	7,439.92	10,299.14	13,591.03
Gross domestic product, current prices	139.36	172.44	186.09
Gross domestic product, current prices	376.99	414.24	449.75
Gross domestic product, deflator	317.89	412.90	512.65
Gross domestic product per capita, constant prices	22,200.96	23,318.01	24,411.68
Gross domestic product per capita, constant prices	2,989.46	3,139.88	3,287.15
Gross domestic product per capita, current prices	70,837.13	96,546.13	125,425.37
Gross domestic product per capita, current prices	1,327.12	1,710.60	2,036.[illegible]6

Gross domestic product per capita, current prices	3,592.76	3,886.56	4,153.40
Gross domestic product based on purchasing-power-parity (PPP) share of world total	0.22	0.23	0.24
Implied PPP conversion rate	19.61	24.75	30.11
Total investment	23.76	20.78	19.21
Gross national savings	20.32	18.14	17.15
Inflation, average consumer prices	343.31	438.03	532.03
Inflation, end of period consumer prices	376.12	468.94	555.00
Population	104.89	106.55	108.26
General government revenue	621.66	850.92	1,125.35
General government revenue	8.38	8.26	8.28
General government total expenditure	860.28	1,080.27	1,435.44
General government total expenditure	11.73	10.53	10.53
General government net lending/borrowing	(238.62)	(229.35)	(310.09)
General government net lending/borrowing	(3.35)	(2.27)	(2.25)
General government primary net lending/borrowing	(192.09)	(165.94)	(199.11)
General government primary net lending/borrowing	(2.72)	(1.65)	(1.46)
General government net debt	2,932.01	3,269.96	3,804.03
General government net debt	40.17	32.28	28.08
General government gross debt	3,105.69	3,464.85	3,998.92

General government gross debt	42.53	34.22	29.54
Gross domestic product corresponding to fiscal year, current prices	7,439.92	10,299.14	13,591.03
Current account balance	(4.88)	(4.94)	(4.68)
Current account balance	(3.61)	(2.73)	(2.15)
Gross Domestic Product	5.51	5.95	6.40
Domestic Demand	5.51	5.92	6.37
Exports of Goods & NF Services	11.35	14.41	16.63
Imports of Goods & NF Services	25.21	31.99	36.89
Nominal Per-Capita GDP	1,099.17	1,360.19	1,530.59
Year-end	54.64	60.51	71.58
Annual Average	53.17	56.92	65.36
Short-Term Interest Rate	7.67	7.69	7.72
Policy Interest Rate (Year-end)	13.00	12.75	12.50
Unemployment Rate (Annual average)	3.33	3.29	3.40
Current Account Balance	(4.86)	(4.82)	(4.28)
Balance on Goods**	(14.45)	(17.84)	(19.37)
Goods, Credit (Exports)	4.12	4.97	6.43
Goods, Debit (Imports)	18.57	22.80	25.80
Balance on Services	0.27	1.20	1.47
Services, Credit (Exports)	8.11	10.40	12.60
Services, Debit (Imports)	7.83	9.19	11.13
External Debt	28.62	28.63	28.64

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 (down-side)	Optimistic (upside)
Cluster 1	100%	0%	0%
Cluster 2	100%	0%	0%
Cluster 3	92%	8%	0%
Cluster 4	100%	0%	9%

(h) Modified financial assets

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

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

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

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

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

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

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

(i) 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 Edythe methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'. LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from 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 Banked on the basis of shared risk characteristics that include:

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

The Banking's are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

(j) Loss allowance

The following tables show reconciliations of loans and advances to customers at amortized cost as of June 2024

In Birr'000	2024			
Loans and advances to customers at amortized cost (on balance sheet and off balance sheet exposures)	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 July 2023	(8,161)	-	-	(8,161)
Transfer to stage 1 (12 months ECL)	-	-	-	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net Remeasurements of loss allowance	-	-	-	-
New financial assets originated or purchased	(18,732)	-	-	(18,732)
Financial assets derecognized				-
Balance as at 30 June 2024	(26,893)	-	-	(26,893)

In Birr'000	2023			
Loans and advances to customers at amortized cost (on balance sheet and off balance sheet exposures)	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 July 2022	-	-	-	-
Transfer to stage 1 (12 months ECL)	(8,161)	-	-	(8,161)
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net Remeasurements of loss allowance	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets derecognized	-	-	-	-
Balance as at 30 June 2023	(8,161)	-	-	(8,161)

The following table provides a reconciliation for 30 June 2024 between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.

In Birr'000	2024			
In Birr'000	**Loans and advances to customers at amortized cost**	**Investment securities (debt instruments) & Cash**	**Other receivables and financial assets**	**Total**
Balance as at 1 July 2023	(8,161)	-	-	
(8,161)				
Net Remeasurements of loss allowance	-	-	-	-
New financial assets originated or purchased	(18,732)	(74)	(3,828)	(22,634.63)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Balance as at 30 June 2024				
(26,893)				
(74)				
(3,828)				
(30,795)				

The following table provides a reconciliation for 30 June 2023 between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the ‘impairment losses on financial instruments’ line item in the consolidated statement of profit or loss and other comprehensive income.

In Birr'000	2023			
In Birr'000	**Loans and advances to customers at amortized cost**	**Investment securities (debt instruments) & Cash**	**Other receivables and financial assets**	**Total**
Balance as at 1 July 2022	-	-	-	-
Net Remeasurements of loss allowance	-	-	-	-
New financial assets originated or purchased	(8,161)	-	-	(8,161)
Financial assets derecognized	-	-	-	-
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Balance as at 30 June 2023				
(8,161)	-	-		
(8,161)				
(3,828)				
(30,795)				

4.2.3 Credit- related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments

4.2.4 Credit quality analysis

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

The loss allowance for loans and advances to customers also includes the loss allowances for loan commitments and financial guarantee contracts.

In Birr'000		2024		
Loans and advances to customer & Amortized cost	Stage 1	Stage 2	Stage 3	Total
Stage1 :Pass	2,495,714	-	-	2,495,714
Stage2:Special mention	-	-	-	-
Stage3:Non performing	-	-	-	-
Total gross exposure	2,495,714	-	-	2,495,714
Loss allowance	(26,893)	-	-	(26,893)
Net carrying amount	2,468,821	-	-	2,468,821

In Birr'000		2023		
Loans and advances to customers@Amortized cost	Stage 1	Stage 2	Stage 3	Total
Stage1 :Pass	866,267	-	-	866,267
Stage2:Special mention	-		-	-
Stage3:Non performing	-	-	-	-
Total gross exposure	866,267	-	-	866,267
Loss allowance	(8,161)		-	(8,161)
Net carrying amount	858,107	-	-	858,107
Net carrying amount	2,468,821	-	-	2,468,821

In Birr'000		2024		
Other financial assets (debt instruments)		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	964,352	(42)	964,309
Investment securities (debt instruments)	12 Month ECL	459,428	(32)	459,396
Other receivables and financial assets	12 Month ECL	117,507	(3,828)	113,679
Emergency staff loans	12 Month ECL	82,179	(411)	81,768
Totals		1,623,466	(4,313)	1,619,153

In Birr'000		2023		
Other financial assets (debt instruments)		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	731,850		731,850
Investment securities (debt instruments)	12 Month ECL	102,134		102,134
Other receivables and financial assets	12 Month ECL	-	-	-
Emergency staff loans	12 Month ECL	-	-	-
Total		833,984	-	833,984

4.2.5 Credit concentrations

The Bank monitors concentrations of credit risk by social sector. An analysis of concentrations of credit risk at 30 June 2024. The Bank concentrates all its financial assets in Ethiopia.

30 June 2024	Public Enterprise	Cooperative	Private	Others
	Birr'000	Birr'000	Birr'000	Birr'000
Cash and balances with banks	964,309			
Loans and advances to customers			2,416,909	
Investment securities:				
Financial asset at fair value through OCI			226,912	
Financial assets at Amortized cost	459,396			
Other assets:				113,679
Total	1,423,706		2,643,821	113,679

30 June 2023	Public Enterprise	Cooperative	Private	Others
	Birr'000	Birr'000	Birr'000	Birr'000
Cash and balances with banks	731,850			
Loans and advances to customers			858,107	
Investment securities:				
Financial asset at fair value through OCI			2,000	
Financial assets at Amortized cost	102,134			
Other assets			26,751	
Total	833,984		886,858	

4.2.6 Commitments and guarantees

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. The table below shows the Bank's maximum credit risk exposure for commitments and guarantees

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Loan commitments		97,200
Guarantees	2,898,437	
Letters of credit	60,706	42,404
Total	2,959,142	139,604

4.3 Liquidity risk

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

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

4.3.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The Bank's liquidity management process, as carried out within the Bank and monitored by fund management team, includes:

Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;

Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and

Managing the concentration and profile of debt maturities.

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

4.3.2 Maturity analysis of financial liabilities

The table below analyses the Bank's financial liabilities into relevant maturity Banking's 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.

	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
45,473	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Deposits from customers	1,926,292	-		535,020	1,545,599
Due to other banks	-	-	-	-	-
Other liabilities	9,400	50,498	-	-	1,543.14
Total financial liabilities	1,935,692	50,498	-	535,020	1,547,142

4.3.3 Financial assets pledged as collaterals

The Bank does not have any assets pledged as collateral

4.4 Market risk

4.4.1 Management of market risk

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

(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. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

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 Interest	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000
Assets			
Cash and balances with banks	182,067	782,242	964,309
Loans and advances to customers	2,416,909	-	2,416,909
Interest free banking		51,913	51,913
Investment securities			
-Financial asset at fair value through OCI		226,912	226,912
-Financial assets at Amortized cost	459,396	-	459,396
Other assets		281,253	281,253
Total	3,058,372	1,342,320	4,400,692
Liabilities			
Deposits from customers	1,963,335	2,043,575	4,006,911
Other liabilities		61,441	61,441
Total	1,963,335	2,105,017	4,068,352
30 June 2023	Fixed Interest	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000
Assets			
Cash and balances with banks	-	731,850	731,850
Loans and advances to customers	858,107	-	858,107
Interest free banking	-	-	-
Investment securities	-		
-Financial asset at fair value through OCI	2,000	-	2,000
-Financial assets at Amortized cost	102,134	-	102,134
Other assets	-	74,603	74,603
Total	962,241	806,453	1,589,956
Liabilities			
Deposits from customers	1,610,907		1,610,907
Other liabilities		176,150	176,150
Total	1,610,907	176,150	1,787,057

(ii) Foreign exchange risk

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

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

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

Foreign currency denominated balances

	30 June 2024	30 June 2023
	Birr'000	Birr'000
USD	2,966	4,020
EURO	8	37
GBP	0.37	-
Total	2,974	4,057

Sensitivity analysis for foreign exchange risk

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

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

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Effect of 10% increase in exchange rate on profit or loss (USD)	297	402
Effect of 10% decrease in exchange rate on profit or loss (USD)	(297)	(402)
Effect of 10% increase in exchange rate on profit or loss (EUR)	1	4
Effect of 10% decrease in exchange rate on profit or loss(EUR)	(1)	(4)
Effect of 10% increase in exchange rate on profit or loss (GBP)	0	
Effect of 10% decrease in exchange rate on profit or loss (GBP)	(0)	

4.5 Capital management

The bank's objectives in managing capital are:

- To comply with the capital requirements set by regulators in the markets where the bank's entities operate and safeguard the bank's ability to continue as a going concern;
- To maintain a strong capital base that supports the development of the business; and
- To sustain a sufficient level of returns for the bank's shareholders.

Risk-weighted assets are calculated in accordance with regulatory guidelines. Credit risk-weighted assets are measured by applying a hierarchy of risk weights related to the nature of the risks associated with on- and off-balance sheet asset classes.

Operational risk- weighted assets are calculated by applying a scaling factor to the bank's average gross income.

Market risk-weighted assets are calculated by applying factors to the bank's trading exposures to foreign currencies, interest rates, and prices.

4.5.1 Capital adequacy ratio

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

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

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

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Capital		
Share capital	1,074,406	890,150
Retained earnings	(23,375)	(79,871)
Other reserves	112,628	
Legal reserve	22,538	
Total Regulatory Capital	1,186,197	810,279
Risk weighted balance for on-balance sheet items	4,516,133	1,965,053
Credit equivalents for off-balance sheet Items	1,461,359	685,930
Total Risk Weighted assets	5,977,492	2,650,983
Risk-weighted capital adequacy Ratio (CAR)	19.84%	30.57%
Minimum Required	8%	8%

4.6 Fair value of financial assets and liabilities

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

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.

4.6.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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.

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

	30 June 2024	30 June 2023
	Carrying Amount	Carrying Amount
	Birr'000	Birr'000
Financial assets	1,074,406	890,150
Cash and balances with banks	964,309	731,850
Loans and advances to customers	2,416,909	858,107
Interest free financing	51,913	-
Investment securities		
Equity Investment	226,912	2,000
Amortized Cost	459,396	102,134
Other asset	113,679	26,751
Total	4,233,118	1,720,841
Financial liabilities		
Deposits from customers	4,006,911	1,610,907
Other liabilities	61,441	44,597
Total	4,068,352	1,655,504

4.6.3 Fair value methods and assumptions

(a) Loans and advances to customers

Loans and advances to customers are carried at amortized cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(b) Cash

The carrying amount of cash and balances with banks is a reasonable approximation of fair value.

(c) Deposit from banks, due to customers and other deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(d) Other assets

The bulk of these financial assets have short term (less than 12 months) maturities and their amounts are a reasonable approximation of fair value.

(e) Other liabilities

The carrying amount of financial liabilities in other liabilities is a reasonable approximation of fair value because these are short term in nature with a maturity of less than one year.

4.6.4 Transfers between the fair value hierarchy categories

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

4.7 Offsetting financial assets and financial liabilities

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

Gadaa Bank S.C

Financial Statements

Interest Free Banking Statement of Profit or Loss

For the year ended 30 June 2024

	30 June 2024 Birr'000	30 June 2023 Birr'000
Commission income	24,216	-
Income from murahaba financing	3,370	-
Income from trade financing		-
Service Charges	-	-
Other Income	3,073	-
Total operating income	**30,660**	**-**
Other operating expenses	(9,489)	-
Profit before tax	**21,171**	**-**
Income tax expense	(6,351)	-
Profit after tax	**14,820**	**-**

Gadaa Bank S.C

Financial Statements

Interest Free Banking Statement of Financial Position

For the year ended 30 June 2024

	30 June 2024 Birr'000	30 June 2023 Birr'000
ASSETS		
Cash and balances with banks	19,638	
Net loan and advance	51,909	
Profit Receivable		
Other assets	136,531	-
Total assets	**208,079**	**-**
LIABILITIES		
Deposits from customers	178,688	-
Other liabilities	29,391	-
Total liabilities	**208,079**	**-**

		30 June 2024 Birr'000	30 June 2023 Birr'000
5	**Interest income**		
	Loans and advances to customers	281,667	27,656
	Due from other banks	44,036	35,984
	Due from NBE And DBE Bonds	28,010	4
		353,714	**63,644**

		30 June 2024 Birr'000	30 June 2023 Birr'000
6	Due to customers	(110,267)	(9,243)
		(110,267)	**(9,243)**

		30 June 2024 Birr'000	30 June 2023 Birr'000
7	**Fee and commission income**		
	Foreign currency transactions	188,749	20,987
	Letter of guarantee	179,513	18,924
	Cash payment orders and cheques	128	-
	Other commission	15,239	296
		383,630	**40,208**
	Fee and commission expense	-	-
	Net Fee and commission income	**383,630**	**40,208**

		30 June 2024 Birr'000	30 June 2023 Birr'000
8	**Other operating income**		
	Dividend income	36	-
	Estimation and inspection fee	3,113	1,577
	Gain on foreign currency transactions	45,669	5,481
	Other income	4,402	453
		53,220	**7,586**

		30 June 2024 Birr'000	30 June 2023 Birr'000
9	**Impairment charge**		
	Loans and advances to customers and other assets - charge for the year	23,150	8,161
	Total Impairment charge	**23,150**	**8,161**

		30 June 2024 Birr'000	30 June 2023 Birr'000
10	**Personnel expenses**		
	Salaries and wages	238,199	103,241
	Staff allowances	3,945	2,356
	Pension costs – Defined contribution plan	29,328	13,596
	Pension costs – Defined Benefit plan	6,938	61
	Prepaid staff expenses	3,887	
	Other staff expenses	13,974	5,431
		296,272	**124,684**

11 Operating expenses

	30 June 2024 Birr'000	30 June 2023 Birr'000
Advertisement and publicity	14,648	14,655
Audit fee	230	132
Bank charges	14	-
Board of directors remuneration		
Cleaning	17	184
Data processing	-	252
Donations	-	3,608
Sponsership	12,196	-
Entertainment	-	1,074
Fuel	5,944	1,772
Insurance	8,378	1,080
Internet	4,895	2,372
Legal and professional fee	3	17
Other operating expense	20,014	5,409
Penalty	1,350	1,197
Per diem	2,581	1,761
Rent	69,284	23,051
Finance Cost	8,486	1,434
Repair and maintenance	522	990
Representation allowance	22,113	-
Stationeries	12,155	13,352
General Supply Stock Expense	3,390	
Subscription and membership fee	12,751	660
Taxes	1,571	-
Telephone and postage	16	2
Transportation	2,033	9,973
General Assembly	3,514	-
Water and electricity	510	114
	206,615	**83,090**

12 Company income and deferred tax

12a Current income tax

	30 June 2024 Birr'000	30 June 2023 Birr'000
Company income tax	-	-
Deferred income tax/(credit) to profit or loss	11,118	(50,544)
Total charge to profit or loss	11,118	(50,544)
Tax (credit) on other comprehensive income	-	-
Total tax in statement of comprehensive in	**11,118**	**(50,544)**

12b Reconciliation of effective tax to statutory tax

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Profit before tax	**101,269**	**(134,836)**
Add : Disallowed expenses		
Entertainment	-	1,074
Donation	-	358
Penalty	1,350	1,197
General Assembly	3,514	-
Accrued Leave	(6)	203
Prepaid staff expense	3,887	-
Severance pay	6,938	61
Depreciation charge for right-of-use assets	69,284	23,051
Provision for loans and advances as per IFRS	23,150	8,161
Depreciation for accounting purpose	48,021	19,855
Amortization for accounting purpose	3,751	-
Total disallowable expenses	**159,889**	**53,961**

Less : Allowable expenses

Depreciation and amortization for tax purpose	75,353	23,537
Provision for loans and advances for tax NBE 80%	13,537	6,913
Rent expense	73,835	24,157
Interest income taxed at source-NBE Bills	28,010	4
Interest income taxed at source-Local Deposit	44,036	35,984
Total allowable expenses	**240,831**	**90,594**
Current year Taxable profit	20,326	(171,469)
Loss for tax purpose brought forward	(171,469)	-
Loss for tax purpose carried forward	(151,143)	
Provision for current tax	**-**	**-**

		30 June 2024 Birr'000	30 June 2023 Birr'000
12c	**Current income tax liability**		
	Balance at the beginning of the year	-	-
	Charge for the year:	-	-
	Income tax credit	-	-
	Payment during the year	-	-
	Balance at the end of the year	**-**	**-**

12d Deferred income tax

The following table shows deferred tax recorded in the statement of financial position and changes recorded

	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	(4,182)	285
To be recovered within 12 months	45,395	51,502
	41,213	**51,787**

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 June 2023 Birr'000	OCI	Credit/ (charge) to P/L Birr'000	30 June 2024 Birr'000
	Property, plant and equipment	(994)		(7,093)	(8,086)
	Accured leave provision	61	-	(9)	52
	Tax losses charged to profit or loss	51,441		(6,098)	45,343
	Gain on investment @ fair value thru	-	(50,074)		(50,074)
	Post employment benefit obligation	1,279	544	2,081	3,904
	Total deferred tax	**51,787**	**(49,530)**	**(11,118)**	**(8,861)**
12e	**Total deferred tax assets**	**52,781**	**(49,530)**	**2,081**	**49,299**
12f	**Total deferred tax liabilities**	**(994)**	**-**	**(13,199)**	**(58,160)**

	Deferred income tax assets/ (liabilities):	At 1 June 2022 Birr'000	OCI Birr'000	Credit/ (charge) to P/L Birr'000	30 June 2023 Birr'000
	Property, plant and equipment	(18)		(976)	(994)
	Accured leave provision	-		61	61
	Tax losses charged to profit or loss	-		51,441	51,441
	Post employment benefit obligation		1,261	18	1,279
	Total deferred tax assets/(liabilities)	**(18)**	**1,261**	**50,544**	**51,787**
12e	**Total deferred tax assets**	**-**	**1,261**	**79**	**1,340**
12f	**Total deferred tax liabilities**	**(18)**	**-**	**(976)**	**(994)**

	30 June 2024 Birr'000	30 June 2023 Birr'000
13 Cash and balances with bank		
Cash in hand	114,645	69,087
Deposits with local banks	423,268	424,468
Deposits with foreign banks	92,691	131,595
	630,604	**625,150**
Reserve with National Bank of Ethiopia	250,075	94,070
Balance held with National Bank of Ethiopia	83,673	12,630
	964,352	**731,850**
Less: Specific impairment allowance	(42)	-
	964,309	**731,850**

Maturity analysis	30 June 2023	30 June 2022
Current	714,277	637,780
Non-Current	250,075	94,070
	964,352	**731,850**

	30 June 2024 Birr'000	30 June 2023 Birr'000
13a Cash and cash equivalent		
Cash in hand	114,645	69,087
Deposits with local banks	423,268	424,468
Deposits with foreign banks	92,691	131,595
Balance held with National Bank of Ethiopia	83,673	12,630
	714,277	**637,780**
Less: Specific impairment allowance	(42)	-
	714,234	**637,780**

	30 June 2024 Birr'000	30 June 2023 Birr'000
14 Loans and advances to customers		
Agriculture	34,983	-
Manufacturing	468,345	248,425
Export	609,540	185,084
Loans to non-bank financial institutions	57,457	-
Import	245,100	75,621
Domestic trade and service	633,446	188,472
Building and construction	236,981	153,970
Diaspora and Institutions Employee Loan	157,425	14,695
Gross amount	**2,443,277**	**866,267**
Stage 1 12 month ECL	(26,368)	(8,161)
Stage 2 Life time ECL	-	
Stage 3 Life time ECL	-	
Net Conventional Loan Balance	**2,416,909**	**858,107**

Maturity analysis	30 June 2024 Birr'000	30 June 2023 Birr'000
within 3 Months	35,332	12,527
3 months up to 1 year	343,726	121,869
1 Year up to 2 years	1,432,177	507,780
2 Years up to 3 years	42,483	15,062
3 years up to 5 years	51,040	18,096
> 5 years	538,518	190,932
	2,443,277	**866,267**

14a Impairment allowance on loans and advances to customers

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

Specific allowance for	**As at 30 June Birr'000**	**Charge for the year Birr'000**	**As at 30 June 2023 Birr'000**
Stage 1 12 month ECL	26,893	18,732	8,161
Stage 2 Life time ECL	-	-	-
Stage 3 Life time ECL	-	-	-
Total impairment allowance	**26,893**	**18,732**	**8,161**

15 Interest free Financing

	30 June 2024 Birr'000	**30 June 2023 Birr'000**
Export -IFB	10,131	-
Domestic trade and service -IFB	37,746	-
Others-IFB	4,560	-
	52,437	**-**
Less Collective Impairment	-	-
- Stage 1 12 month ECL	(524)	-
- Stage 2 Life time ECL	-	-
- Stage 3 Life time ECL	-	-
Net Interest free Financing	**51,913**	**-**

Maturity analysis	**30 June 2024 Birr'000**	**30 June 2023 Birr'000**
Within 3 Months	-	
3 months up to 1 year	-	
1 Year up to 2 years	13,032	-
2 Years up to 3 years	34,845	-
3 years up to 5 years	-	-
> 5 years	4,560	-
	52,437	**-**

16 Investment securities

	30 June 2024 Birr'000	**30 June 2023 Birr'000**
Equity Investments	2,000	2,000
Additional for the year	58,000	-
Revaluation gain or loss	166,912	-
Total Investment securities	**226,912**	**2,000**

16a The following is the equity investments of the Bank as at 30 June 2024:

Investee Company	Percentage holding	30 June 2024 Birr'000 Cost	Revaluation gain/loss	Total
Oromia Insurance Company s.c	1.25%	15,000	5,313	20,313
Ethiopian Security Exchange S.c	0.33%	5,000	-	5,000
Ethio Swich s.c.	2.24%	40,000	161,599	201,599
		60,000	**166,912**	**226,912**

The Bank hold equity investments in Oromia Insurance Company 1.25%,Ethiopian Security Exchange S.c 0.33% and Ethio Swich s.c 2.24% as of 30 June 2024. This investments are unquoted equity securities measured at fair value through other comprehensive income (FVOCI).

Equity instruments are instruments that meet the definition of equity from the holder's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Equity instruments are measured at FVTPL. However, on initial recognition of an equity investment that is not held for trading, the bank may irrevocably elect for strategic or long term investment reasons to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. On adoption of the standard, the bank did designate all of its equity instruments as FVTOCI. Gains and losses on these instruments including when derecognised/ sold are recorded in OCI and are not subsequently reclassified to the Income Statement.

17 **Amortized Cost:**	**30 June 2024 Birr'000**	**30 June 2023 Birr'000**
Treasury Bond	450,848	102,134
Ethiopian Government Bonds	8,580	-
Gross amount	**459,428**	**102,134**
Less: Specific impairment allowance	(31.77)	-
	459,396	**102,134**

Maturity analysis	**30 June 2024 Birr'000**	**30 June 2023 Birr'000**
Current	-	
Non-Current	459,396	102,134
	459,396	**102,134**

18 **Other assets**	**30 June 2024 Birr'000**	**30 June 2023 Birr'000**
Financial assets		
Uncleared effects of transfers - Foreign	12,359	16
Uncleared effects of transfers - Local	4,790	(6)
Account receivable	100,358	26,741
Gross amount	**117,507**	**26,751**
Less: Specific impairment allowance	(3,828)	-
	113,679	**26,751**
Non-financial assets		
Prepaid staff expense	10,902	-
Prepayments	127,207	40,038
General supplies	29,448	7,814
Gross amount	**167,574**	**47,852**
Net Financial and Non financial asset	**281,253**	**74,603**

Maturity analysis	**30 June 2024 Birr'000**	**30 June 2023 Birr'000**
Current	173,821	74,603
Non-Current	111,260	-
	285,081	**74,603**

19	Intangible Assets	Purchased Software Birr'000	Total Birr'000
	Cost:		
	As at 30 June 2022	**-**	**-**
	As at 1 July 2022	-	-
	Acquisitions	38,904	38,904
	As at 30 June 2023	**38,904**	**38,904**
	Accumulated amortisation		
	As at 30 June 2022	**-**	-
	As at 1 July 2022	-	**-**
	Amortisation for the year		-
	As at 30 June 2023	**-**	-
	As at 30 June 2023	**38,904**	**38,904**
	As at 1 July 2023	38,904	38,904
	Acquisitions	28,087	28,087
	As at 30 June 2024	**66,991**	**66,991**
	Accumulated amortisation		
	As at 30 June 2023	**-**	-
	As at 1 July 2023	-	**-**
	Amortisation for the year	3,751	3,751
	As at 30 June 2024	**3,751**	**3,751**
	Net book value		
	As at 30 June 2023	**38,904**	**38,904**
	As at 30 June 2024	**63,240**	**63,240**

	Building Birr'000	Motor vehicles Birr'000	Office Equipment Birr'000	Furniture And Fittings Birr'000	Computer equipment Birr'000	Construction in progress Birr'000	Total Birr'000
20 Property, plant and equipment							
Cost:							
As at 30 June 2022	**-**	**3,926**	**44**	**597**	**1,102**	**-**	**5,670**
As at 1 July 2022	-	3,926	44	597	1,102	-	5,670
Additions	294,925	115,179	27,134	52,689	81,047		570,974
Reclassification	-	229	11,149	13,705	9,214	-	34,296
As at 30 June 2023	**294,925**	**119,334**	**38,327**	**66,991**	**91,363**	**-**	**610,940**
As at 1 July 2023	294,925	119,334	38,327	66,991	91,363	-	610,940
Additions	6.41	46,945.93	(201)	16,235.29	51,310	21,047	135,343
Reclassification	-	-	7,008	11,807	19,885	-	38,699
As at 30 June 2024	**294,931**	**166,280**	**45,135**	**95,033**	**162,557**	**21,047**	**784,983**
Accumulated depreciation							
As at 30 June 2022	**-**	**13**	**22**	**100**	**171.22**	**-**	**306**
As at 1 July 2022	**-**	**13**	**22**	**100**	**171**	**-**	**306**
Charge for the year	875	7,484	2,946	1,567	6,983	-	19,855
As at 30 June 2023	**875**	**7,497**	**2,968**	**1,667**	**7,154**	**-**	**20,161**
As at 1 July 2023	875	7,497	2,968	1,667	7,154	-	20,161
Charge for the year	5,619	13,409	5,868	6,605	16,520	-	48,021
As at 30 June 2024	**6,494**	**20,906**	**8,836**	**8,272**	**23,675**	**-**	**68,182**
Net book value							
As at 30 June 2023	**294,050**	**111,837**	**35,359**	**65,324**	**84,209**		**590,779**
As at 30 June 2024	**288,437**	**145,374**	**36,298**	**86,761**	**138,882**	**21,047**	**716,801**

20a Right of use asset and financial lease liability

A Right -of use asset:	**Building**		**Total**
As at 1 July 2023	**239,209**	**-**	**239,209**
Depreciation charge for right-of-use assets	(69,284)		(69,284)
Additions	205,390		205,390
Balance at June 2024	**375,316**		**375,316**

B Lease Liability

	Building	**Total**
Balance 01 July 2023	**90,235**	**90,235**
Adjustment	-	-
Additions	53,388	53,388
Balance at June 2024	**143,622**	**143,622**

		30 June 2024 Birr'000	30 June 2023 Birr'000
21	**Deposits from customers**		
	Demand deposits	1,864,887	795,654
	Savings deposits	1,428,316	598,013
	Time deposits	535,020	143,335
	Wadia demand deposits	61,405	18,006
	Wadia savings deposits	117,283	55,898
		4,006,911	**1,610,907**
22	**Other liabilities**		
	Financial liabilities		
	Letter of credit margin payables	48,993	22,183.00
	ATM settlement payable	22	-
	CTS Settlement account	-	107.00
	Exchange payable	1,506	1,773.00
	Cash payement order payable	9,378	20,331.00
	Board of directors remuneration payable	1,369	-
	Staff payables	174	203
		61,441	**44,597**
	Non-financial liabilities		
	Defined contribution liabilities	2,293	6,254.00
	Stamp duty charges	859	100.00
	Withholding tax payable	923	2,621.00
	Other tax payable	4,919	6,733
	Deferred Income Loan Processing Fee	1,373	711.00
	Deferred Income Guarantee Commission	16,544	11,116.00
	Sundry payables	98,347	104,018
		125,258	**131,553**
	Gross amount	**186,700**	**176,150**

Maturity analysis	30 June 2024 Birr'000	30 June 2023 Birr'000
Current	67,968	53,848
Non-Current	118,732	122,302
	186,700	**176,150**

		30 June 2024 Birr'000	30 June 2023 Birr'000
22a	**Retirement benefit obligations**		
	Defined benefits liabilities:		
	– Severance pay (note 22b)	13,014	4,264
	Liability in the statement of financial position	**13,014**	**4,264**
	Income statement charge included in personnel expenses:		
	– Severance pay (note 22b)	6,938	61
	Total defined benefit expenses	**6,938**	**61**
	Remeasurements for:		
	– Severance pay (note 22b)	(1,812)	(4,203)
		(1,812)	**(4,203)**

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

Maturity analysis	30 June 2024 Birr'000	30 June 2023 Birr'000
Current	6,938	61
Non-Current	6,076	4,203
	13,014	**4,264**

22b Severance pay

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

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

		30 June 2024 Birr'000	30 June 2023 Birr'000
A	**Liability recognised in the financial position**	**13,014**	**4,264**

		30 June 2024 Birr'000	30 June 2023 Birr'000
B	**Amount recognised in the profit or loss**		
	Current service cost	5,009	29
	Interest cost	1,929	32
		6,938	**61**

C	**Amount recognised in other comprehensive income:**		
	Actuarial (Gains)/Losses on demographic assumptions		
	Actuarial (Gains)/Losses on economic assumptions	(1,687)	(30)
	Actuarial (Gains)/Losses on experience	(125)	(4,173)
		(1,812)	**(4,203)**

D Change in the present value of the defined benefit obligation

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	4,264	-
Current service cost	5,009	29
Interest cost	1,929	32
Remeasurement (gains)/ losses	1,812	4,203
year	**13,014**	**4,264**

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	18.70%	20.80%
Long term salary increases	16.30%	17.10%

ii) Mortality in Service

The rate of mortality assumed for employees are those published in the Demographic and Health Survey ("DHS") 2016 report compiled by the CSA. The DHS report provides male and female mortality rates for 5 year age bands from age 15 to age 49. For ages over 47 we have assumed that mortality will be in line with the SA85/90 ultimate standard South African mortality tables published by the Actuarial Society of South Africa ("ASSA"), since the rates in these tables are similar to the DHS female mortality rate at age 47. These rates combined are approximately summarized as

Age	Mortality Rate	
	Males	Females
20	0.00306	0.00223
25	0.00303	0.00228
30	0.00355	0.00314
35	0.00405	0.00279
40	0.00515	0.00319
45	0.0045	0.00428
50	0.00628	0.00628
55	0.00979	0.00979
60	0.01536	0.01536

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience.

The sensitivity of the main results to changes in the principal assumptions rate have been calculated. The changes in the Defined Benefit Obligation are reflected below:

	Impact on defined benefit obligation 30 June 2024		
Sensitivity	Base DBO Birr'000	DBO on Changed Birr'000	% Change
Discount rate +1%	13,014	11,416	-12.30%
Discount rate -1%	13,014	14,854	14.10%
Salary increase +1%	13,014	14,877	14.30%
Salary increase -1%	13,014	11,372	-12.60%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years

	30 June 2024 Birr'000	30 June 2023 Birr'000
23 Share capital		
Authorised:		
Ordinary shares of Birr 1000 each	1,167,079	1,167,079
Issued and fully paid:		
Ordinary shares of Birr 1000 each	1,074,406	890,150

24 Earnings per share

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Profit/Loss) attributable to shareholders	90,151	(84,292)
Weighted average number of ordinary shares in issue	1,074,406	887,923
Basic & diluted earnings per share (Birr)	**0.08**	**(0.09)**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2024:nil,30 June 2023:nil), hence the basic and diluted

25 Retained earnings/(Accumulated Loss)

	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	(79,871)	4,901
Profit/ (Loss) for the year	90,151	(84,292)
Director's share of profit	(1,369)	-
Transfer to Legal reserve	(22,538)	-
Transfer to Risk reserve	(9,748)	(480)
At the end of the year	**(23,375)**	**(79,871)**

26 Legal reserve

At the beginning of the year	-	
Transfer from profit or loss	22,538	-
At the end of the year	**22,538**	**-**

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

27 Risk reserve

	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	480	-
Transfer From Retained Earning	9,748	480
At the end of the year	**10,228**	**480**
Loan loss provision as per NBE directive	44,308	**8,641**
Loan loss provision as per IFRS	31,311	**8,161**
Difference	12,997	480
Transfer to legal reserve	(3,249)	-
	9,748	**480**

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

When Prudential provision is greater than IFRS provision; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve"; and When prudential provision is less than IFRS provision; IFRS determined provision is charged to the statement of comprehensive income.

28 Other Reserves

	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	(2,942)	-
Other comprehensive income	(1,268)	(2,942)
Revaluation Gain-Equity Investment	116,839	
At the end of the year	**112,628**	**(2,942)**

Other reserve represents Remeasurement gain/(loss) on retirement benefits obligations net of tax when the Bank requires IAS 19 Valuation to recognise any actuarial gains or losses in Other Comprehensive Income (OCI).

Gains and losses on Revaluation of Equity Investment these instruments including when derecognised/ sold are recorded in OCI and are not subsequently reclassified to the Income

		Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
29	**Cash generated from operating activities**			
	Profit before income tax		**101,269**	**(134,836)**
	Adjustments for non-cash items:			
	Depreciation of property, plant and equipme	20	48,021	19,855
	Amortisation of intangible assets	19	3,751	
	Impairment on loans and receivables	14	22,635	8,161
	Provisions for guarantee & letters of credit issued		515	
	Amortisation of Right use Asset		69,284	23,051
	Dividend income		-	
	Retirement benefit obligations	22a	6,938	61
	Changes in working capital:			
	Decrease/ (Increase) in loans and advances	14	(1,577,010)	(866,267)
	Decrease/ (Increase) in interest free bankin	15	(52,437)	
	Decrease/ (Increase) in other assets	18	(210,478)	(71,229)
	Decrease/Increase in Customers deposits	21	2,396,004	1,610,907
	Decrease/Increase in Lease liability	21	53,388	90,235
	Decrease/Increase in other provisions	30b	-	-
	Increase/ (Decrease) in other liabilities	22	9,181	83,299
			871,061	**763,376**

30 Related Party Transactions

Gadaa Bank (S.C.) has been registered as commercial bank on April 26, 2022 in accordance with article 304 of Commercial Code of Ethiopia. It was established in line with Banking Business Proclamation No. 592/2008 with authorized capital of Birr 1.167 billion. It started operation on 24th December 2022, with paid up share capital of birr 551.56 million. Gadaa Bank is owned by organizations, associations and individuals . The bank did not enter any transaction with related

30a Key Management Compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank.The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at June 2024.

	30 June 2024 Birr'000	) June 2023 Birr'000
Senior Management Salaries and Other Short-term Employ	7,104	7,094
	7,104	**7,094**

Compensation of the Bank's key management personnel includes salaries and non-cash benefits.

30b Board of Directors Compensation

The Bank provides monthly allowances and annual compensation fee for each member of board of directors of the bank per the prevailing direction from the National Bank of Ethiopia.

	30 June 2024 Birr'000	) June 2023 Birr'000
Board of Directors Remuneration	1,369	-
Board allowance	-	1,240
	1,369	**1,240**

31 Contingent Liabilities

31a Claims and Litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations.

However, there is no legal cases exposure as of June 30 2024 which has not been incorporated in Financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

31b Guarantees and Letters of Credit

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

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 amount of contingent liabilities for the account of customers:

	30 June 2024 Birr'000	) June 2023 Birr'000
Financial Guarantees issued	2,898,437	-
Letters of credit	60,706	42,404
Loan approved but not disbursed	-	97,200
	2,959,142	**139,604**
Provisions for Guarantees and Letter of credits issue	**515**	**-**

32 Right use of asset and Lease liabilities

The Bank leases various properties(builings) under IFRS 16 Laese agreements. The lease terms are

	30 June 2024 Birr'000		30 June 2023 Birr'000	
	Right use of asset	**Lease liabilities**	**Right use of asset**	**Lease liabilities**
Within one year	-	-	-	-
After 1 year but within 2 years	2,083	1,311	-	
After 2 years but within 5 years	233,398	105,945	216,051	82,638
After 5 years	139,834	36,366	23,158	7,597
Total	**375,316**	**143,622**	**239,209**	**90,235**

33 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.

Baankii Gadaa
New Generation' s Bank
ገዳ ባንክ
GadaaBank

Guyyaa ..../. ... ../. ..... .
Yaadannoo

WKRKJSD

Tel: +251 116 392577/ (]) 641 SWIFT Code: GDAAETAA E-mall: info@gadaabank.com.et P.O.Box: 31996
Head Ouarter: Kirkos Sub-city, Woreda 03, Gotera
www.gadaabank.com.et

Guyyaa ..../. ... ../. ..... .
Yaadannoo

WKRKJSD

Tel: +251 116 392577/ (]) 641 SWIFT Code: GDAAETAA E-mall: info@gadaabank.com.et P.O.Box: 31996
Head Ouarter: Kirkos Sub-city, Woreda 03, Gotera
www.gadaabank.com.et

SUPERIOR CUSTOMER SERVICE

NEW GENERATION'S BANK

PEOPLE WILL FORGET WHAT YOU SAID, PEOPLE WILL FORGET WHAT YOU DID, BUT PEOPLE WILL NEVER FORGET HOW YOU MADE THEM FEEL.

You will always feel at home at Gadaa Bank


REST. ASSURED.
General Insurance
Life & Health Insurance
Agriculture & Microinsurance
Halal Takaful Insurance
Availing four major insurance lines of businesses under one roof.
oromiainsurance.com
Oromia INSURANCE

Head Office

Kirkos Sub-city, Woreda 03, Gotera House No. 745
Hotline: 641
P.O.Box. 31996
Email: info@gadaabank.com.et
website: www.gadaabank.com.et

www.masterprintaddis.com