Baankii Gadaa
New Generation's Bank

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Gadaa Bank

ANNUAL REPORT

For The Fiscal Year 2022/23

June 30,2023
FINFINNE, ETHIOPIA

Our 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 Vision

To Inspire and Enable Your Dreams

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

1st Ordinary and Extra Ordinary Shareholders General Assembly Meeting on December 31st 2023 G.C @ Millennium Hall, Finfinne

Grand Inauguration Ceremony on 24th December 2022 G.C

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BOARD OF DIRECTORS

Dr. Hassen Hussien Kedir
Board Chairperson

Obbo Hailu Ifa Gonda
Vice Board Chairperson and Chair of HR & Business Affairs Sub-committee

Dr. Degefa Duressa Obbo
Board Member and Chair of Audit Sub-committee

Eng. Abdo Galeto Anota
Board Member and Chair of Risk Management Sub-committee

Dr. Birhanu Assefa Demissie
Board Member

Obbo Shiferawu Rufie Bodo
Board Member

Obbo Wasihun Amenu Tiyiti
Board Member

Obbo Hamdeno Mideso Woya
Board Member

Ad. Semira Mohammed Abdella
Board Member

Obbo Alazar Adula Yatene
Board Member

Obbo Galata Dhaba Afata
Company Secretary

Management Team

Obbo Wolde Bulto
Chief Executive Officer

Obbo Fathi Haji
Chief Information Officer

Obbo Abdujebar Kedir
Ex. Director – IFB

Obbo Eshetu Deressa
Ex. Director – Customer Experience

Obbo Dereje Mengistu
Chief Risk and Compliance Management

Obbo Legesse Jada
Chief Internal Audit

Obbo Debebe Feyissa
Director – Strategy & Research

Obbo Robera Wakgari
Director – Credit Department

Add. Tenaye Aklilu
Director – Finance Management

Obbo Milky Tenkolu
Director – International Banking Department

Obbo Ulfata Regassa
Director – Human Capital Management

Fikadu Urgessa
Director – Procurement and Facilities Management

Muleta Debel
Director - Legal Services

Addee Sebasegel Seyoum
Director – Corporate and Institutional Banking

Obbo Yirgalem Teshome
Director – Information Technology

Obbo Fetene Alemu
Director – Promotion and Public Relation

Obbo Gudeta Gelana
Director – Personal & SME

Obbo Fedessa Woreti
Director – IT System Security

Obbo Ifa Abdissa
Director – Digital Banking

Message of Board of Directors' Chairman

Dear Gadaa bank esteemed shareholders, Board of Directors, management and staffs, honorable guests and all other stakeholders; I would like to extend my gratitude and sincere thanks to you all!

Distinguished Ladies and Gentlemen, I welcome you once again to the second Annual General Meeting of your organization, Gadaa Bank SC.

On behalf of my fellow board members and myself, it is my pleasure to present Gadaa Bank's second annual report for the fiscal year 2022–23. Additionally, I am proud to have participated in and directed the bank's incredible journey to get where it is now. You, the honorable shareholders, pay incredible cost to make Gadaa Bank a reality for the new generation and to develop its typical business track by putting your trust in board of directors, management of the bank and providing business ideas also.

Dear honorable shareholders and guests;

The bank came into reality with the presence of multifaceted global and domestic occurrences that cause more challenges on the one hand and few opportunities on the other as well. While countries were struggling to recover from the impact of COVID-19, conflicts and supply chain disruptions, the Russian-Ukraine war caused unprecedented shocks mainly on the commodity market that further triggered the rise in prices of food and non-food items. Domestically, the impact of the imported global challenges coupled with the prolonged internal conflict, instability and draught in some parts of the country had adversely affected the macroeconomic stance. As inflation reached levels not seen in many years, the NBE reacted on it by imposing various instrument. As a result, the banking sector was operating under the restrained monetary policy environment that aimed at curbing inflation, tackling economic sabotage, encouraging exports and maintaining reserves among others. Despite these challenging environments, I am pleased to announce that our Bank has entered into operation during 2022/23 fiscal year and aged six months since its operational date. Multiple congratulations!!!!

In spite of several challenges, we are reasonably proud of the significant successes we have made in our first six months of operation. With a strong focus on our strategic pillars: strengthening strategic alliance, fostering a customer-centric mindset, acquiring talented human capital, assuring digitization, fostering sustainable growth, and enhancing the bank's core competencies; we got off to a great start in 2023. In doing so, the bank took a number of initiatives and established a solid foundation for future success and seamless business operation. This success and strong foundation would not have been possible without the coordinated efforts of the teams formed to establish the bank, the shareholders, the board of directors, the bank's senior management, and the staff, who showed fortitude in the face of numerous challenging circumstances and cooperated with the operating environment and regulatory requirements to foster a solid foundation for the future.

Dear honorable shareholders and guests;

Once again, it's an honor and privilege to present the Second annual report of the board of directors of Gadaa Bank S.C on its operations and financial performance for the year ended June 30, 2023. It took the bank months of preparation before opening its doors to the public on December 24th, 2023 and the report covers an operational period of six months, which ended on June 30th, 2023.

Since the date it secured its license, the bank has been engaged in several activities directed at smoothing its operations, building its image, enlarging its branch accessibility, enhancing employees' capabilities, and digitizing banking solutions in line with its strategic foundation. The bank has managed to open 60 (sixty) branches both in Finfinne and outlying areas to enlarge its presence throughout the country. The bank has also invested huge amount of money to procure latest core banking solution (Temones T24) that backed the bank with world-class technology. Now, we are on track with the execution of our bold strategies to realize our ambition for positioning our bank in the industry by the near future, as reflected in the inception point of our main business records.

The Bank has shown a moderate startup in customer base expansion, deposit mobilization, provision of loans, and generation of foreign currency. The bank was able to mobilize total deposits of Birr 1.6 billion by the end of June 30, 2023, while the number of deposit accounts has reached 75,482. In this regard, the bank has successfully penetrated the market and is in a promising position, despite the industry's rigorous defense mechanisms for new entrants like our bank.

Unfortunately, but for very good reasons, our intent of generating profits from the very first six months of operation has not been realized. Gadaa Bank was formed with a broad vision and innovative ideas, which is by itself going to be highly challenging. The good things, we are pleased to note that our significant investments are already paying off and have started to fast translate into profits. Although the Bank registered losses in its first six months of operations, this was no longer the case for the fiscal year 2023/24, allowing us to register a profit from the beginning of the fiscal year. We have also a clear plan and a highly committed and resilient management team and staff to deliver increased value for our shareholders.

On the other hand, 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. During the year, we devoted resources towards various impactful projects and sponsorships spanning various initiatives.

Finally, I would like to conclude by extending my heartfelt thanks and appreciation you to our shareholders for the trust placed in us and for your ongoing support of the Bank in the face of all challenges and adversity. We are confident that our bank will generate profit in a very short time and accordingly urge you to place our Bank in a stronger position to deliver on its mandate.

I would like to recognize our customers for their continued support and business. Their custom underpins our success. I salute our management and staff for their dedication, diligence and commitment to the success of the Bank. Your collective efforts, team spirit and resilience have contributed immensely to delivering quality services and value to our customers and stakeholders during this difficult and challenging period of operation. I also appreciate and thank our many other partners and supporters who have contributed greatly to our budding success.

On behalf of the Board of Directors, I say to you all, thank you and I wish you a happy and fruitful second year of operation for Gadaa Bank.

Thank you once again for the privilege of serving.

With best wishes,

Dr. Hassen Hussien Kedir
Chairperson, Board of Directors
Galatoomaa !
Gadaan Quufaa Gabbina !

Message from the CEO

Dear Respected Shareholders of Gadaa Bank:

It is with great pleasure and honor that I present to you the second annual report of our bank for the fiscal year ended 30th June 2023, and more importantly, come to you with the message that Gadaa Bank has delivered to meet its business objectives. I am also honored to be the founding CEO of Gadaa Bank, having led the bank on its incredible journey to where it is now.

The fiscal year 2022/23 posed serious challenges both in the global and the domestic business environment. It has witnessed a number of challenges by the global economy which tended to reverse the gains obtained from the recovery of the COVID-19. It was subjected to multiple shocks from the pandemic to war in Ukraine, which has worsened overall global economic activities. As a result of which, according to World Bank June 2023 report, global economic growth is substantially decelerated to 2.1% for 2023 from its 3.1% in 2022. Global inflation has gone higher than anticipated and broadening beyond food and energy prices, which thereby prompted many major central banks to announce further monetary tightening measures with ample weigh on the recovery.

The domestic 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. 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 activities due to the negative impact of the COVID-19 and global financial tightening, which exacerbated supply-chain disruption. In domestic arena, all commercial banks strive to compute for provision of similar services and share the same market and resources with stiff competition.

Beside the global and domestic challenges as well as ongoing stiff competition in the banking industry, Gadaa bank had a remarkable opening ceremony and operational kick-off while it took months for operational preparation to open its door to the public on 24th December 2022. During its pre-operational period, the bank undertook a number of activities and initiatives to assure that the bank is well-positioned to start providing efficient and effective banking services from its inception. Establishing a quality service delivery system, designing and inculcating an enthusiastic organizational culture, designing successful market penetration strategy, and establishing a promising position in the industry are all critical factors for Gadaa Bank to implement significant system development during the inception period. Given the importance of these phenomenon in ensuring competent banking operations, enabling efficient and effective banking service delivery, personalizing customer experiences, making it simple to do, and implementing effective resource mobilization initiatives, our bank developed a number of policies, procedures and guidelines to ensure process efficiency and effectiveness, as well as the accountability of all employees. Furthermore, unlike to the practices of the domestic banking industry, our bank formulated its first five-year corporate business strategy before commencing its operation. This will enable the bank to identify its competitive advantage over the rivalry, deliver its mandate and ensure its sustainable growth and productive over the strategic period whilst to ensure shareholders' value.

Building internal capabilities, broadening capital base, deploying state-of-the art-technology, deploying effective resource mobilization strategies and instituting cost-conscious culture are some of the strategic initiatives we have started to take actions to cope up with the dynamisms and ensure sustainability of the bank. We, the management and board of directors, critical evaluate and give due attention to capital base broaden initiatives since it's the undeniable factor for sustaining in the business, fulfilling the regulatory requirement and it's a pre-condition for our business expansion. However, these initiatives need shareholders real commitment especially in broadening capital base of our bank. Management of the bank has real commitment to ensure competitiveness and sustainability of the bank.

Apart from its system development, our bank achieved reasonable operational performance in the face of a challenging global and domestic socioeconomic environment, as well as stiff competition and regulatory requirements, which laid groundwork for realizing our high expectations in all aspects of banking operations sooner in the coming year. Accordingly the bank mobilized Birr 1.6 billion from 75,482 depositors as at of June 30, 2023 via its 60 branches, which was operationalized within six months of operation. Albeit the Bank planned to start disbursement lately during the fiscal year, with the expectation of late deployment of credit system and to ensure strong liquidity position, the bank disbursed a total Birr 847.96 million. Along with the loan disbursed to customers, the bank made a purchase of Birr 102.13 million NBE bills. On the other hand, International Banking operations generated a total FCY of USD 5.77 million from remittance, FCY dealing with NBE and Purchase.

The Bank's total income as at of June 30, 2023 amounted to Birr 111.4 million, while the total expense of the Bank reached 246.3 million as at of June 30, 2023. On the other hand, the total assets, total capital and paid-up capital of our Bank reached Birr 2.69 billion, 807.8 million and 890.2 million, respectively as of June 30, 2023.

Moreover, the bank has registered several non-financial achievements, including acquiring of land of 6,579M^2 from Finfinne city administration at the center of financial hub for future head office building, which in the long run will give confidence and trust to its shareholders in the overall undertaking. Hence, the new headquarters construction will have financial benefits and will also provide considerable operational advantages for a fast-growing bank.

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 seize this opportune moment to extend my sincere gratitude to our esteemed customers who have chosen our bank and were our strength in the journey to lay a sturdy foundation; and the Bank's shareholders for their patronage; the Board of Directors for their guidance; the Executive Management and the entire staff of the bank for their commitment and dedication, and the National Bank of Ethiopia for the assistance provided to us. I am sure, with patronage of our esteemed customers, support and guidance from the Board of Directors, and dedicated leadership and staff; we will reach the height of our vision and exceed expectation, in satisfying all stakeholders.

Wolde Bulto Adugna
Chief Executive Officer (CEO)

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New Generation's Bank
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Gadaa Bank

Gadaa
Al Rayyan

Our Interest Free Banking Services
Al Rayyan

CERTIFIFCATE OF APPROVAL

Baankii Gadaa GadaaBank AlRayyan الريان

بسم الله الرحمن الرحيم

CERTIFICATE OF APPROVAL FOR GADAA BANK ALRAYYAN PRODUCTS

"In the name of Allah, the most compassionate, the most merciful, the most gracious"

In compliance with, the charter of the committee having reviewed the Al Rayyan products' documentation including related contracts.

We the Sharia Advisory Committee of Gadaa Bank confirm that in our opinion the Wadiah Saving Account, Amana Current Account, Mudarabah Saving and Fixed Time Deposit Accounts, Murabahah Financing, Qard Al Hassan Financing and Kafala/Letter of guarantee products are in accordance with the principles of sharia and therefore we allow the Bank to provide these products to its customers..

Allah knows best.

CHAIRMAN	DEPUTY CHAIRMAN	MEMBER & SECRETARY
SHEIK JEMAL MUSA JILO	SHEIK HUSSEIN MAHMUD	SHEIK MUSA SHEKO MANGI

W.A BAANKII GADAA No. 15 GADAA BANK S.C.

This certificate is signed on July 06, 2023

Sharia Advisory Committee (SAC)

Statement for the Fiscal Year Ended June 30, 2023

"In the name of Allah, the most compassionate, the most merciful, the most gracious"

Gadaa Bank is established to contribute towards economic empowerment and holistic transformation of the low and medium-income sections of the population in the country, and it has implemented interest-free banking services to enhance inclusiveness in the banking sector.

Pursuant to the Gadaa Bank's corporate strategy to serve the community at large and NBE Directive SBB/72/2019 to acquire the IFB business license, by fulfilling all the requirements Gadaa Bank secured the license on June 06, 2023 which allows providing the interest free banking services and products in accordance with the sharia principles.

In this regard, we the Gadaa Bank's Sharia Advisory Committee ensures that the Gadaa Bank's IFB operations are incompliance with the Islamic sharia principles. Since, we joined the bank as Sharia Advisory it has been our regular duties and responsibilities to conduct periodic reviews of products and services to assure that the IFB operational activities, the segregation of funds and transaction within the Bank and its IFB policies, guidelines and procedures issued are in compliance with the sharia principles and requirements.

In accordance with the duties and responsibilities of the SAC in the Charter, we are required to give assurance on the IFB operations and submit the report. So, this report is presented as part of annual report for the fiscal year ended June 2023.

Accordingly, Gadaa Bank has been started to offer IFB services in fund mobilization; fund utilization and service based products at its all window based and IFB dedicated branches. The Gadaa Bank's Interest Free Banking services and products are designated as "Al Rayyan" which is brand name and described as excelling/satisfying the customers needs'.

We have reviewed the products listed above with their respected sharia principles, the policies, procedures guidelines, the relevant contracts and the core banking system acquired by the bank (Temenos/T24).

Finally, the Sharia Advisory Committee takes this opportunity to express its warmest gratitude to the Board of Directors, the Bank's Management and staff for their cooperation and Insha'Allah we will work together for the growth of the bank.

Thank you very much!

Jazakumullah khairan!

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

Sharia Advisory Committee (SAC) Members

Sheik Jemal Musa Jilo
Chairman

Sheik Hussein Mahmud Hamu
Deputy Chairman

Sheik Musa Sheko Mangi
Member & Secretary

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BOARD OF DIRECTORS' REPORT

It is with great pleasure that the Board of Directors of Gadaa Bank presents to you, esteemed shareholders, the bank's annual performance report for the fiscal year that ended on June 30, 2023 at its second annual general meeting. The bank started and operated for the last six months despite of a difficult domestic and global environment manifested by poor economic recovery, social instability, high level inflation, Ukraine-Russian war emanated supply shock, exacerbated foreign exchange shortages, drought, and the aftereffects of the COVID-19 pandemic.

1. Major Macroeconomic Highlights of 2022/23 FY

1.1. Global Economy

The global and domestic economies have continued to experience contraction during the fiscal year of 2022/23 due to high persistence global inflation, climate crisis, security issues, and combative monetary policies by developed nation's central banks that are resulted in unpredictable performance of the financial sector. The global growth is projected to reduce to 2.1% from an estimated 3.1% in 2022, while Ethiopian's economy is estimated to grow by 6.0% during 2023 (World Bank, June 2023). The slowdown is mainly concentrated in advanced economies, especially the euro area, the United States and Japan. On the other hand, emerging and developing economies are relatively poised to have a strong growth rate.

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

Beside the global and domestic challenges, Ethiopia has earned USD 3.2 billion from export during the first eleven months of this fiscal year. On the other hand, country level inflation recorded 30.8% in May 2023, which are quite high and off-target with possible adverse effects on resource mobilization. Food inflation stands at 28.5%, while Non-food inflation came in at 34.4%. on the other hand, during the first ten months of 2022/23, about USD 2,261.4 million worth of individual remittance was received at country level that decline by 1.2% from same period of 2022/23.

1.3. Banking Industry

As of June 30, 2023, the number of commercial banks in the industry has reached 30, of which 29 are private and 1 public. All commercial banks strive to compute for provision of similar services and share the same market and resources with stiff competition. As of June 30, 2023, the total assets, deposits, and paid up capital of commercial banks estimated above Birr 2.9 trillion, Birr 2.2 trillion, and Birr 257 billion, respectively. In addition, the amount of outstanding loan reached Birr 1.9 trillion, which increased by 21% compared to the last year same period. Whereas, the third generation banks alone mobilize an incremental deposit of Birr 56.4 billion as of June 30, 202, where all other banks also registered growth from the previous year position.

2. Major Pre-Operational Activities

In today's global and domestic dynamic environment, it is vital to create and implement coherent and suitable pre-operational activities and initiatives in order to thrive in business and generate business return from the inception period. As Gadaa Bank intends to offer a comprehensive banking services, play a part in economic and social growth, and go beyond providing financial services with a customer-centric approach while optimizing the shareholders' value and benefit, corporate business strategy is used as an essential tool for achieving and measuring the attainability of these goals. The bank also believes that having a corporate strategic plan, which will be operationally in-placed effectively, and shared by every stakeholder, will contribute a lot to successfully realize its long term objectives. Moreover, a well formulated strategy is an engine for our sustainable growth and productivity, as it dictates what resources, offers or services, operations, and capabilities are needed in order to realize its vision.

To this end, Gadaa Bank has formulated its first ***five year corporate business strategy*** and begun to share and implement it by cascading down to its annual operational plan. In addition to this, the bank has been formulating different functional strategies such as Human Capital Management strategy, Resource Mobilization strategy, Interest Free Banking business strategy, Capital Growth strategy, Digitalization strategy, and many more strategic initiatives. Moreover, during pre-operational period, the board of directors and management had put in place designed appropriate web-site and ergonomics to promote the bank.

On other hand, setting up a quality service delivery system, managing a 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.

To support strategic implementation and put it on strong ground so as to offer competent banking service, enabling efficient and effective banking service delivery system and personalizing customer experiences, making easy of doing, and enhancing resource mobilization; the bank undertook various development on IT system/projects, including its latest and global preferred core banking System (Temenos T24).

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 Mobile Banking services (USSD), we are working to further enhance our IT infrastructure and digital banking so as to augment the performance of the Bank as well as its image. Furthermore, the Bank has been implementing its second phase Core Banking System implementation.

In order to optimize interest of shareholders, the board of directors and management of the bank have undertaken assessment as to how to mitigate the galloping inflation. Accordingly, the bank has decided to purchase G+8 story building for its Headquarters. We believe that this decision has significantly benefited the bank in many ways. Moreover, investments on basic and mandatory resources including on vehicles and office furniture and equipment had also been made to run the business.

It is also important to underscore that we have undertaken various activities including feasibility study, policies and procedures to get blessings of National Bank of Ethiopia to commence interest free banking operations. Accordingly, the bank had abled to get license to start interest free banking services in the fiscal year.

Taking long term strategic plan of the bank into account, we have been working to acquire land for our future Headquarters. In return to our efforts and positive response of Finfinne municipality, we are managed to get plot of land at the center of the city.

3. Operational Performance

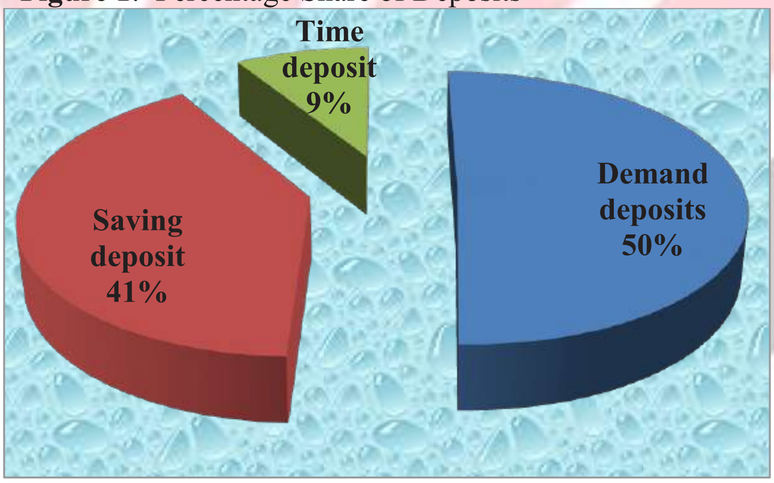
3.1. Deposit Mobilization

Despite stiff competition over resource in the banking industry, Gadaa bank given especial emphasis for deposit mobilization during the last six months in operation. Nevertheless, deposit growth portrays the growing public confidence in the Bank, which is the very foundation on which banking business stands. It also strengthens the base for future credit expansion which a growing economy undoubtedly requires as well as the base on which the Bank continued profit growth and shareholder benefits rest over the medium and longer term. The Bank has mobilized a deposit of Birr 1.61 billion from as of June 30, 2023. 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.

Regardless of the internal and external challenges faced, the expansion of branches and other strategic initiatives, together with the best efforts of the Bank's stakeholders, were the main contributors to the acceptable performance registered during the first six months of its operation. On other hand, the presence of malpractices and stiff competition in the industry induced critical challenges on deposit mobilization efforts of our bank.

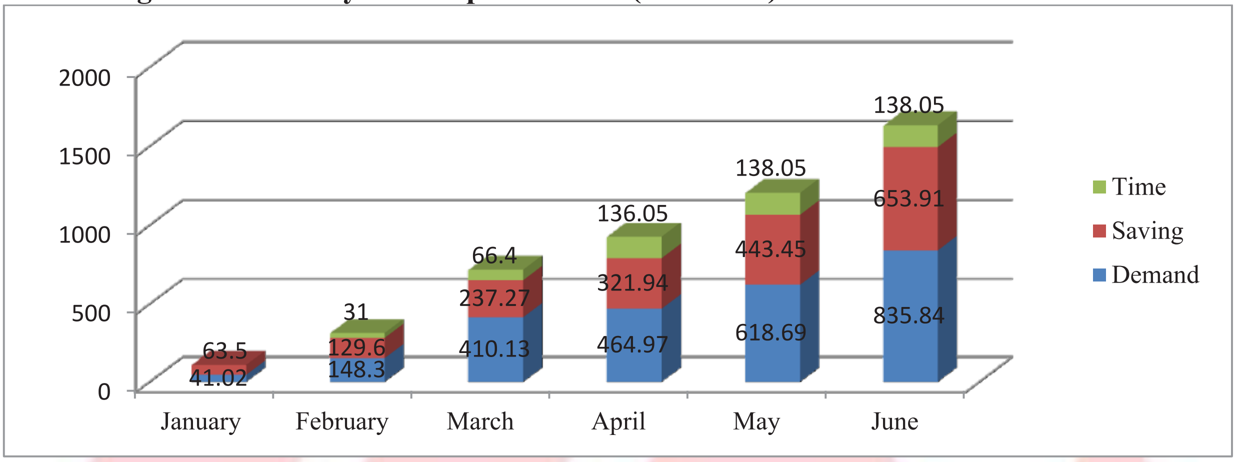
In terms of composition, out of the total deposits balance of the Bank, demand deposits claimed the largest share (51%, Birr 813.7 million) while saving deposit constitutes about 41% share of Birr 653.9 million as at of June 30, 2023.

Figure 1: Percentage Share of Deposits



As depicted in the figure below, during the last six months of operation period, deposit mobilization has shown relatively good performance, where demand deposit (including LC margin) and saving deposit registered a monthly average growth rate of 62% and 104%, respectively. The total deposit also registered an average growth rate of 84% over the last six months. In this instance, the increase would have been caused by a number of factors, including branch expansion and customer expansion, staff strength and commitment etc.

Figure 2: Monthly total deposit trends (in million)

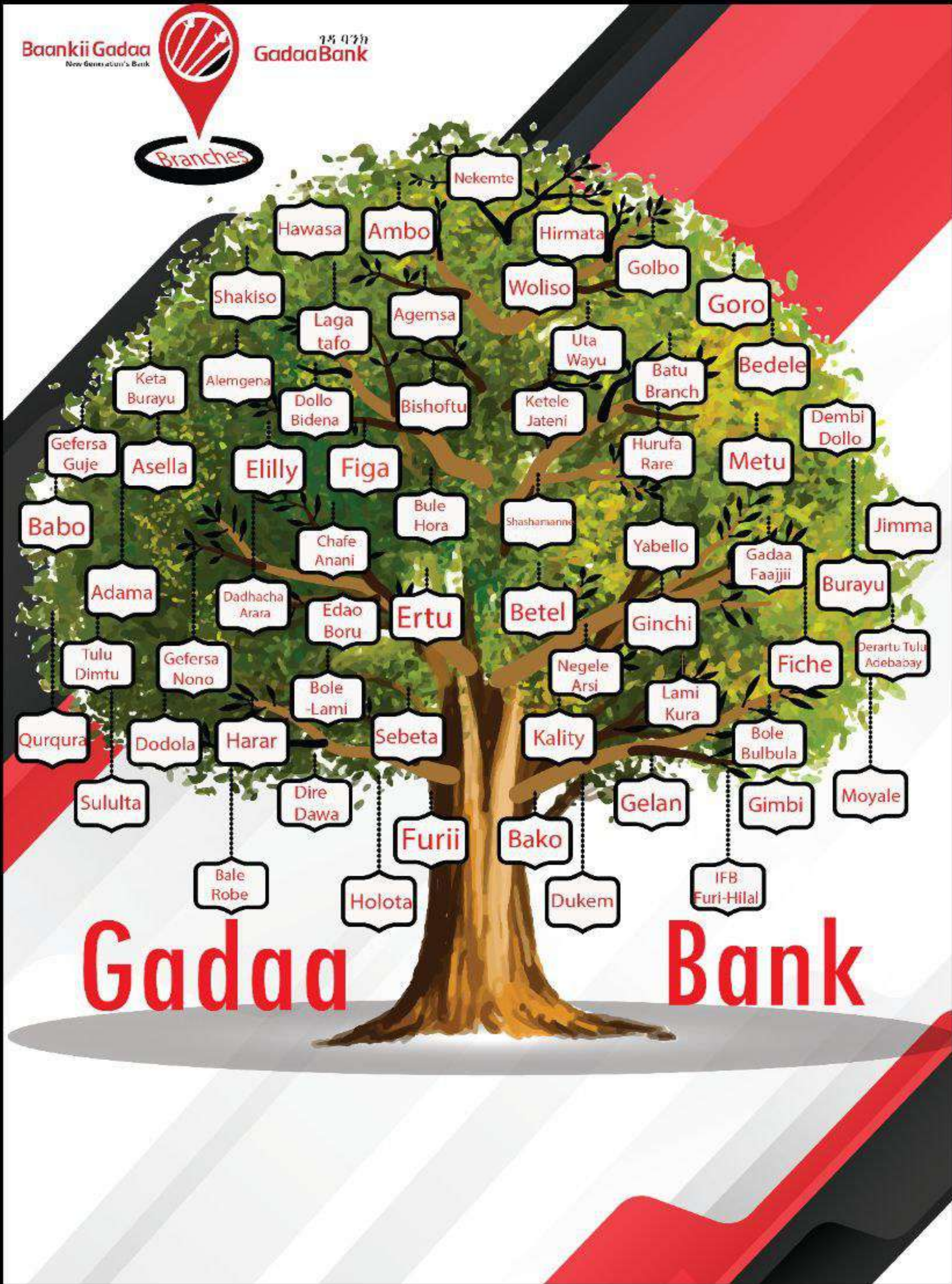


3.2. Customer Base

The bank has managed to open deposit accounts of 75,482. On average, the bank managed to open 483 accounts on daily basis, which were nearly 12 accounts per branch per day. With regard to IFB customer, the bank only managed to recruit 7,414 accounts due to the late approval of service authorization by NBE.

3.3. Branch Expansion

As the bank pursued commitment to expand its accessibility from the very inception period, upon the official inauguration of our banking service 30 branches were became operational. During the fiscal year 2022/23, the Bank opened 60 branches in different areas of the country, making it the second private bank to expand its branch network with such a high pace of expansion within six months of operation. The branch expansion performance in Finfinnee and the Sheger city reached 30 branches, while branches opened in outlying areas achieved 91% of their target plan of 22 branches by opening 20 branches.



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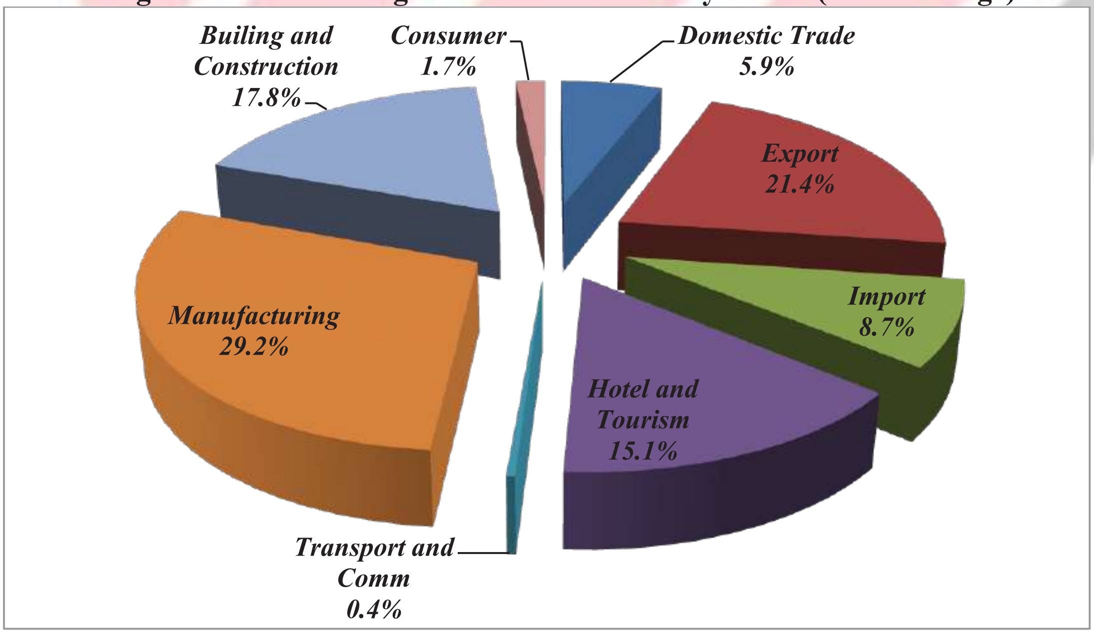
ገዳ ባንክ
GadaaBank
Branches
Nekemte
Hawasa
Ambo
Hirmata
Golbo
Woliso
Goro
Shakiso
Laga tafo
Agemsa
Uta Wayu
Batu Branch
Bedele
Keta Burayu
Alemgena
Dollo Bidena
Bishoftu
Ketele Jateni
Dembi Dollo
Gefersa Guje
Asella
Elilly
Figa
Hurufa Rare
Metu
Babo
Bule Hora
Shashamanne
Jimma
Chafe Anani
Yabello
Gadaa Faajjii
Adama
Dadhacha Arara
Edao Boru
Ertu
Betel
Ginchi
Burayu
Tulu Dimtu
Gefersa Nono
Negele Arsi
Fiche
Derartu Tulu Adebabay
Bole -Lami
Lami Kura
Qurqura
Dodola
Harar
Sebeta
Kality
Bole Bulbula
Sululta
Dire Dawa
Gelan
Gimbi
Moyale
Furii
Bako
Bale Robe
Holota
Dukem
IFB Furi-Hilal
Gadaa
Bank

3.4. Credit Performance

With the expectation of resource mobilization as primary focus areas of the bank during the first fiscal year of operation as well as the late deployment of credit system/application/, the bank did not plan disbursement in the month of January and February, 2023. However, due to the large demand of credit the bank started to entertain some amount of credit for few customers starting from March, 2023. Hence, the Bank disbursed a total Birr 847.96 million the fiscal year 2022/23. Looking at the outstanding loans by type, the Bank loans and advance stood at Birr 858.1 million as at of June 30, 2023. Out of the entire loan outstanding, the term loan accounts for Birr 751.85 million while export (pre-shipment) and other Loans (Consumer and Merchandise) followed with corresponding loan amounts of Birr 99.86 million and Birr 24.7 million, respectively.

The bank's loan to deposit ratio was 52.7% and 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.

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

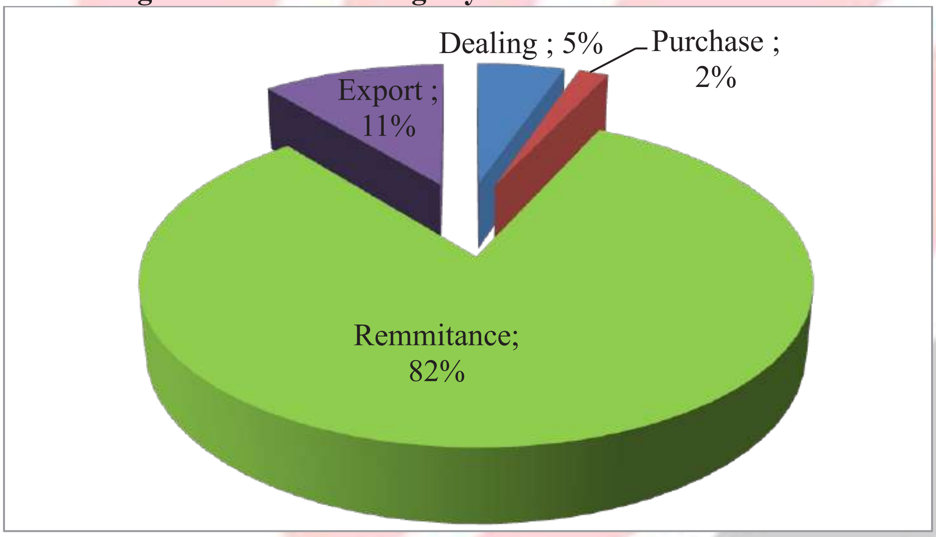


3.5. International Banking Performance

Considering income from international banking as a second major income source, the Bank has given especial attention to FCY earnings prior to deployment of trade service core banking module, so as entertain few cases in manual operation. During the fiscal year 2022/23, the bank was able to earn a total of USD 5.77 million from three sources of FCY earnings. During the fiscal year ended, the FCY earning through remittance took the largest shares of the overall amount of actual USD generated, accounting for 4.7 million, while FCY dealing and FCY purchase constituted total USD 300,000 and 103,883, respectively.

From the performances of major FCY earning categories planned for the period, FCY dealing had achieved the expected target of 120% while FCY purchase were 62% of their target plan. However, FCY from exports were earned only 6% of the respective plan because the delayed issue of the Forex bureau by the NBE, and the lack of resources for Forex operation.

Figure 4: FCY Earnings by Source



In order to further enhance its international banking service delivery to the attainment of customers need and generate more foreign exchange, Gadaa bank has continued its effort to establish strong business relationships with internationally renowned money transfer companies and correspondent banks as well. Accordingly, the Bank has launched business relation with Dahabshiil. Likewise, the Bank has finalized to establish business relationship with Ria Company and also on progress with additional Money Transfer Companies. On top of that, currently, the Bank has created correspondent banking business relationship with 4 international banks in the currency of USD (4 accounts), EURO (1accounts) and GBP (1 accounts) till June 30, 2023.

3.6. Interest Free Banking Services

Following the approval of interest free banking service by National Bank of Ethiopia, the bank has undertaken various initiatives related to this business segment so as to efficiently and effectively run Gadaa Bank's Al-Rayyan banking business in accordance with the sharia principles. Having the approval of interest free banking service license from NBE, the bank has mobilized Birr 73.9 million as of June 30, 2023. Of the total, large amount is mobilized from Wadia saving accounts Birr 55.9 million) while only Birr 18 million was mobilized from Amanah deposit product during the fiscal year.

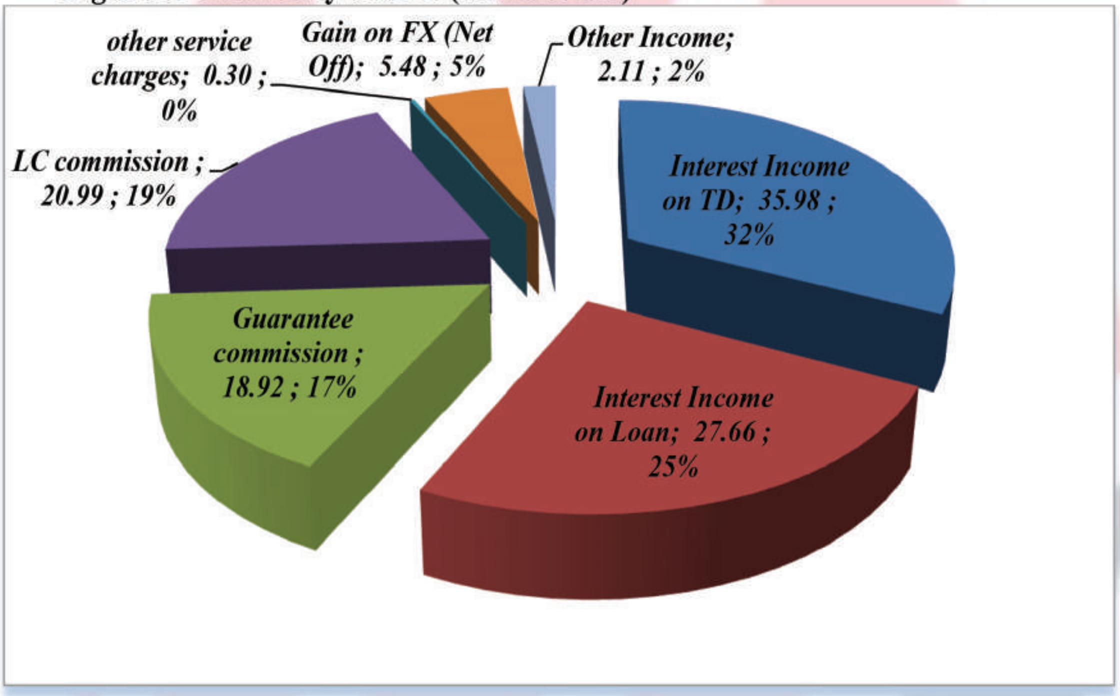
Regarding the accessibility of interest free banking service, the bank has adopted window based services over all its branches and dedicated full-fledged IFB branches. During the fiscal year ended June 30, 2023, the bank launched its IFB service throughout all conventional branches and has managed to open one full dedicated branch (Furi Hilal Branch) in Finfinnee city.

Furi Hilal Branch Inauguration

3.7. Income

The Bank's total income as of June 30, 2023 amounted to Birr 111.44 million. Interest earned on fixed deposits held in other private banks, interest on loans and advances and LC commission are the principal sources of income for the period. Accordingly, interest income from fixed term deposit with other banks, which constituted 32% of the total income, was Birr 35.98 million during the fiscal year of 2022/23 while income earned from LC commission was constituted about 19% of total income.

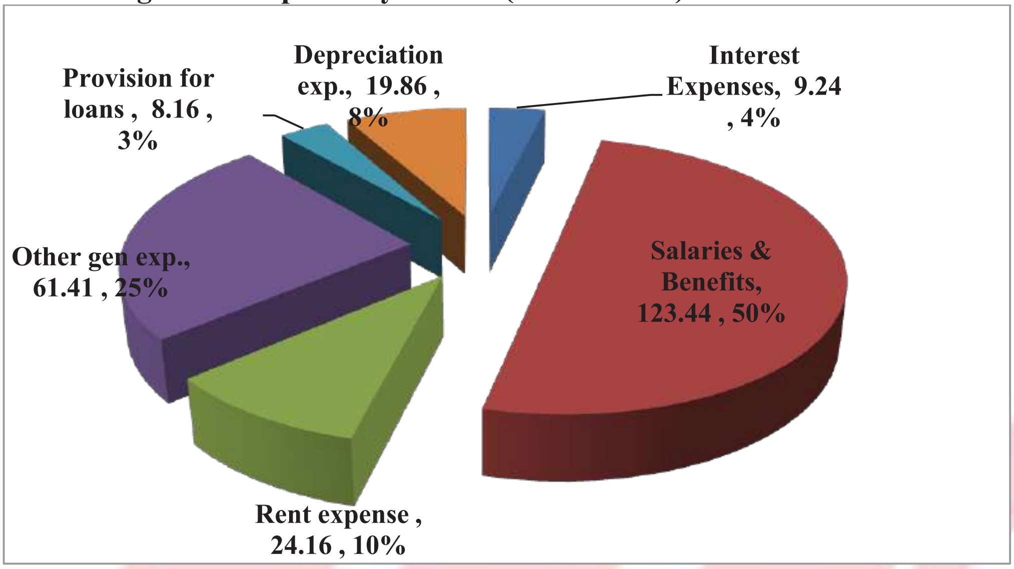
Figure 5: Income by Source (Million Birr)



3.8. Expense

The overall expense of our bank reached Birr 246.27 million as of June 30, 2023 including the provision allotted for loans and advance and depreciation. Employees' salary and benefits accounted for the majority of expense types during the fiscal year with a share of 50%, followed by general expenses with a share of 35% while interest expense paid for depositor accounts Birr 9.24 million with a share of 4% of the total expense during the fiscal year.

Figure 6: Expense by Source (Million Birr)



3.9. Profitability

The fiscal year 2022/23 stands as a pivotal year for Gadaa bank, representing a remarkable milestone in our journey of banking business operation so as to laydown strong foundation for business sustainability and profitability early in the next fiscal year. The bank had undertaken a number of investment including branch expansion, human capital acquisition and IT investments. These investments take time to yield results. To put the bank in a position to generate results in the near future, the bank chosen to bear large up-front establishment expenses even at the cost of showing a loss in our first six months of operational period. During the 2022/23FY, the bank had registered a loss of Birr 87.23 million after tax. The bank planned to implement a variety of initiatives that enhance its revenue sources over the next year in order to meet the significant expenses incurred so far as well as its anticipated future expenses and to recognize breakeven earlier than expected.

3.10. Balance Sheet

Asset: At the end of the financial year 2022/23, the total asset of the Bank stood at Birr 2.69 billion growing by 307 percent from June 30, 2022 position of Birr 660.2 million. Of the total asset, the loans and advances to customers, cash and balances with banks (including time deposited in other commercial banks) took the lion's share of 32% (Birr 858.1 million) and 27% (Birr 731.85 Million), respectively; and followed by Property, plant and equipment with share of 22% (Birr 590.78 million).

Capital: The Bank's total capital at the end of June 2023 reached Birr 807.8 million growing by only Birr 240.5 million or by 42 percent from its June 30, 2022 balance. The paid up capital reached Birr 890.2 million, growing by Birr 327.7 million or by 58 percent from June 30, 2022 position. To increase and meet the regulatory requirements the bank shall give attention in the coming year.

4. Human Resource Management

Gadaa bank by considering the importance of talented human capital as a key source of sustained competitive advantage and only skilled and efficient people can manage the financial risks and complexities involved in the banking sector, talented human capital is identified as one of the strategic pillars during its first five year strategic period. Hence, during pre-operating period and then the bank has given especial emphasis on acquisition of capable workers as the most crucial things that can be done to ensure that the pre-operating processes go well and that could lay the groundwork for future success. Accordingly, the bank recruited a total of 478 permanent employees and 497 outsourced non-clerical employees as of June 30, 2023. Looking at the staffing distribution by location, the head office has 164 staffs (34% of share) and branches have 314 employees (66% of the total headcount). Furthermore, efforts have been made to automate human resource activities through ongoing in-house IT development.

In terms of occupational categorization, the majority of permanent staff hired at the head office, apart from managers, is classified as experienced professionals, junior level employees, and non-clerical workers, making up more than 64% of the total headcount.

The bank also believes that via successfully execution of its strategic plan, it would be able to thrive and establish itself as a major player within the industry by investing heavily in the development of its human resources. To this end, training on a range of subjects was provided to 2,222 employees during the fiscal year of 2022/23, in line with the Bank's clear objectives for human capital development. So, as of June 30, 2023, Birr 3.02 million was invested in training and human resource development to increase staff members' capacity to carry out activities as required.

Staff Training

5. Summary of Board of Directors Performance In 2022/23

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); effectively assigned senior management staffs of the bank; approved Five Years Strategic Plan of the bank; and passed resolutions on investing in profitable companies (OIC and ETHSWITCH although not yet actually invested), and on acquisition of HQ for the bank. More importantly, the board has been committed to comply with NBE's requirements to enable the bank stand and get ahead in banking business.

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

Although it has certainly not been ideal for the banking sector to launch at one of the weakest points in the global economic cycle and in the face of such a difficult domestic macroeconomic environment, Gadaa Bank is operationalizing by taking into account challenges and difficulties that will ultimately strengthen and establish a strong foundation for its future. On the other hand, Gadaa Bank joined the banking industry at a time when policy changes allowed foreign banks to operate in the country, established capital market, and allowed payment operators, including foreign telecom operators and other Fintechs, to operate in the financial sector. These changes also brought about a new level of dynamics for the industry. The bank is taking aggressive measures to address both the challenges and opportunities that the development provides.

In the year ahead, the Bank will continue to expand the full range of banking services it has been offering since its establishment and also additional ones, be it mobilizing deposits, providing loans, offering international banking services or linked and beyond these services. There are a lot of initiatives and activities that are already begun or soon to be commenced in the new fiscal year.

- To support the Bank's fast-growing operations, capital base broaden initiatives is our top priority since it's the undeniable factor for sustaining in the business, fulfilling the regulatory requirement and, moreover, it's a pre-requisite for our business expansion. However, these initiatives need shareholders real commitment especially in broadening capital base and promoting of our bank to the public.

- Using cutting-edge technology and being digitally competent remain indispensable areas of focus starting from the point of inception. It is critical to the bank's ability to seize new possibilities by providing a range of service choices and streamlining, speeding up, and securing transaction processing for our customers. It also helps to provide customer-centric service across all touch-points of the bank. Hence, the bank intends to accelerate the implementation of the whole procured and newly procured cutting-edge technology in order to improve the effectiveness, efficiency, and accessibility of financial services for its valued customers.

- 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.

- 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.

- Nurturing talented human capital is Gadaa Bank's top priority since employees are essential to the bank's success in the face of challenging and dynamic environment, technology, and customer demand. The bank commits to fostering confidence and trust for the bank among all stakeholders and equips its employees to continuously strive to provide customers with best-in-class services. We will continue to build a fair, diverse and performance-driven culture, guided by the principles of innovativeness, aggressiveness, stability, detail oriented, people oriented, result oriented, teamwork and our five Core Values that drive our behavior and actions at work.

- Gadaa Bank is finalizing the process of acquiring land for the purpose of building a future headquarters. In this regard, the Bank has finalized the lease arrangements for a plot of land in the middle of city where it is expected to become the Hub financial sector. In the fiscal year ahead, the Bank will plan to float a bid for architectural design that devises the Gadaa ideologies and our future business. The new headquarters construction will be expected to bring about financial benefits and considerable operational advantages for a fast-growing bank.

- 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.

7. Vote of Thanks

The 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

Farmers Training and Community Banking

Partnership with Different Business Entities

Board of Director's Training

Training and Certification

IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

IFRS FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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Mobile +251-96-621 59 21
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TEWODROS AND FIKRE AUDIT
SERVICES PARTNERSHIP
CHARTERED CERTIFIED
ACCOUNTANTS
P.O.Box 8118
E-mail: chalatewodros@gmail.com
Mobile+ 251-96-621 59 21
90-380 61 90
Addis Ababa Ethiopia

Gadaa Bank S.C
Financial Statements
For the year ended 30 June 2023
Contents

Gadaa Bank S.C
Financial Statements
Directors, professional advisers and registered office
For the year ended 30 June 2023

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*
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	*Executive Director, Custome*	*1-Sep-2022*
Ob. Abduljebar Kedir Jiru	*Executive Director,IFB*	*4-Nov-2022*
Ad. Tenaye Aklilu Worku	*Director, Finance Manageme*	*6-Jun-2022*
Ob. Ifa Abdisa Horata	*Director, Digital Banking Dep*	*21-Jul-2022*
Ob. Yirgalem Teshome Ketema	*Director, IT Department*	*21-Jul-2022*
Ob. Gudeta Gelana Chemeda	*Director, Personal & SME Ba*	*21-Jul-2022*
Ob. Fetene Alemu Negeri	*Director, Promotion & Public*	*1-Aug-2022*
Ob. Robera Wokgari Negasa	*Director, Credit Department*	*8-Aug-2022*
Ob. Debebe Feyisa Aredo	*Director, Strategy and Resea*	*8-Aug-2022*
Ob. Ulfata Regasa Idato	*Director, Human Capital Man*	*1-Sep-2022*
Ob. Milky Tenkolu Bune	*Director, International Banki*	*1-Sep-2022*
Ob. Fekadu Urgesa Megersa	*Director, Procurement & Fac*	*1-Sep-2022*
Ad. Sebasegel Seyoum Gemeda	*Director, Corporate & Institu*	*14-Nov-2022*
Ob. Muleta Debel Wakjira	*Director, Legal Service*	*20-Nov-2022*
Ob. Fedesa Woreti Gelalcha	*Director, Information System Security*	*7-Mar-2023*

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

Corporate office

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

Company secretary
Obbo Geleta Daba

Principal bankers
National Bank of Ethiopia

Gadaa Bank S.C
Financial Statements
Report of the directors
For the year ended 30 June 2023

The Directors submit their report together with the financial statements for the period ended 30 June 2023 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 2023 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.

	2023 Birr'000	2022 Birr'000
Revenue (Interest Income, Commission and operating income	75,450	3
Profit/Loss before tax	(134,836)	4,919
Income tax expense	50,544	(18)
Loss for the year	(84,292)	4,901
Other comprehensive income / (loss) net of taxes	(2,942)	-
Total comprehensive income / (loss) for the year	**(87,234)**	**4,901**
Earning Per Share	**(0.09)**	**0.01**

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 24,2023

Gadaa Bank S.C
Financial Statements
Statement of Directors' Responsibilities
For the year ended 30 June 2023

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 whether the Bank had complied with the provisions of the Financial Reporting Proclamation and directives issued for the implementation of the aforementioned Proclamation.

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 systems 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
24-Oct-23

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+ 251-011-466 11 57 251-96-621 59 21
>> 90-380 61 90
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Tewodros and Fikre Audit Services Partnership
P.O. Box 8118
E-mail: chalatewodros@gmail.com
Addis Ababa Ethiopia

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GADAA BANK S.C

OPINION

We have audited the accompanying financial statements of GADAA BANK S.C which comprise the statement of profit and loss and other comprehensive income for the year ended 30 June 2023, statement of financial position as at 30 June 2023, 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 S.C as at 30 June 2023 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by IASB adopted for the first time.

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 MATTER

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

Addis Ababa
October 24, 2023

Certified Auditors in Ethiopia
Tewodros and Fikre Audit Service Partnership

Accounting and Auditing Board of Ethiopia
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Original Copy Submitted to the Board

W.A BAANKII GADAA
No. 02
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 2023

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
Interest income	5	27,656	
Interest Income on FTD & TB	5	35,988	
Interest expense	6	(9,243)	
Net interest income		**54,401**	**-**
Commission income	7	40,208	-
Commission expense	7	-	-
Net fees and commission income		**40,208**	**-**
Other operating income	8	7,586	6,316
Total operating income		**102,194**	**6,316**
Loan and other asset impairment	9	(8,161)	
Net operating income		**94,034**	**6,316**
Personnel expenses	10	(123,444)	(831)
Board of Directors' Allowance		(1,240)	(440)
Depreciation of property, plant and equipmen	19	(19,855)	112
Other operating expenses	11	(84,330)	(239)
Total Other Operating Expense		**(228,870)**	**(1,397)**
Profit/Loss before tax		**(134,836)**	**4,919**
Income tax credit	12a	**50,544**	**(18)**
Profit/Loss for the year		**(84,292)**	**4,901**
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 tax	22	(2,942)	-
		(2,942)	-
Total comprehensive income for the		**(87,234)**	**4,901**
Basic Earnings per share (Birr)	25	(0.09)	0.01

The notes on pages 8 to 68 are an integral part of these financial statements.

Gadaa Bank S.C
Financial Statements
Statement of Financial Position
For the year ended 30 June 2023

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
ASSETS				
Cash and balances with banks	13	731,850	651,451	644,359
Loans and advances to customers	14	858,107	-	-
Investment securities:				
-Financial asset at fair value through OCI	15	2,000	-	-
-Financial assets at Amortized cost	16	102,134	-	-
Other assets	17	74,603	3,374	3,373
Right-of-use assets	32	239,209	-	-
Intangible assets	18	38,904	-	-
Property, plant and equipment	19	590,779	5,364	1,298
Deferred Tax Asset	12e	52,781	-	-
Total assets		**2,690,366**	**660,189**	**649,030**
LIABILITIES				
Deposits from customers	20	1,610,907	-	-
Lease liabilities	32	90,235	-	-
Other liabilities	21	176,150	92,851	91,157
Retirement benefit obligation	22	4,264	-	-
Deferred preoperating income	34c	-	-	6,313
Deferred tax liability	12f	994	18	-
Total liabilities		**1,882,549**	**92,870**	**97,470**
EQUITY				
Share capital	23	890,150	562,419	551,560
Retained earnings	26	(79,871)	4,901	-
Other reserve		(2,942)	-	-
Risk reserve	28	480	-	-
Total equity		**807,817**	**567,320**	**551,560**
Total Liabilities and Equity		**2,690,366**	**660,189**	**649,030**

The notes on pages 8 to 68 are an integral part of these financial statements.

The financial statements were approved and authorized for issue by the board of directors on October 24, 2023 and were signed on its behalf by:

Dr. Hassen Hussien Kedir
Chairperson, Board of Directors

Wolde Bulto Adugna
Chief Executive Officer(CEO)

W.A BAANKII GADAA · GADAA BANK S.C. No. 00

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Tewodros and Fikre Audit Service Partnership

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Gadaa Bank S.C
Financial Statements
Statement of changes in equity
For the year ended 30 June 2023

	Notes	Share capital Birr'000	Retained earnings Birr'000	Other reserve Birr'000	Risk Reserve Birr'000	Total Birr'000
As at 31 May 2022		**551,560**	**-**			**551,560**
As at 1 June 2022		**551,560**	**-**	**-**	**-**	**551,560**
Profir/Loss for the period	26		4,901			4,901
Transactions with owners in their capacity as owners						
Issue of shares	23	10,859	-	-	-	10,859
As at 30 June 2022		**562,419**	**4,901**	**-**	**-**	**567,320**
As at 1 July 2022		**562,419**	**4,901**	**-**	**-**	567,320
Loss for the period	26		(84,292)			(84,292)
Re-measurement gains/loss on defined benefit plans (net of tax)	22			(2,942)		(2,942)
Reversal of severance liability			-			
Issue of shares	23	327,731	-	-	-	327,731
Transfer to Risk Reserve			(480)		480	-
		327,731	(84,772)	(2,942)	480	240,497
As at 30 June 2023		**890,150**	**(79,871)**	**(2,942)**	**480**	**807,817**

The notes on pages 8 to 68 are an integral part of these financial statements.

Baankii Gadaa Gadaa Bank

Gadaa Bank S.C
Financial Statements
Statement of cash flows
For the year ended 30 June 2023

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
Cash flows from operating activities			
Cash generated from operations	29	763,236	187
Net cash (outflow)/inflow from operating activities		**763,236**	**187**
Cash flows from investing activities			
Purchase of NBE bills and bonds	16	(102,134)	-
Purchase of equity investments	15	(2,000)	-
Purchase of property, plant and equipment	19	(605,270)	(3,954)
Right-of-use assets	19a	(262,261)	-
Purchase of Intangible Asset	18	(38,904)	-
Net cash (outflow)/inflow from investing activities		**(1,010,569)**	**(3,954)**
Cash flows from financing activities			
Proceeds from issues of shares	23	327,731	10,859
Net cash (outflow)/inflow from financing activities		**327,732**	**10,859**
Net increase/(decrease) in cash and cash equivalents		**80,399**	**7,092**
Cash and cash equivalents at the beginning of the	13	651,451	644,359
Cash and cash equivalents at the end of the		**731,850**	**651,451**

The notes on pages 8 to 68 are an integral part of these financial statements.

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Gadaa Bank S.C

Financial Statements
Notes to the financial statements
For the year ended 30 June 2023

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 wereda 03, House # 745 around Gotera infront of Wangelawit Building, Addis Ababa,Ethiopia

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.

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, 2023 (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 comprises;

=>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.

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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 thousand, 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 fnancial 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 standards, 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 2022 and earlier applications are permitted and have not been applied in preparing these financial statements.

- **IFRS 17, Insurance contracts**

This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8**

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

- **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single t**

These amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- **Amendment to IAS 12-Amendments regarding deferred tax on leases and decommissionin**

The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- **Amendment to IAS 12 - International tax reform - pillar two model rules**

These amendments give companies temporary relief from accounting for deferred taxes arising from the Organization for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

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

The following accounting pronouncements were not effective as of June 30, 2023 and therefore have not been applied in preparing these financial statements.

New Standards or amendments	Effective Date
Amendment to IFRS 16 – Leases on sale and leaseback	1-Jan-24
Amendment to IAS 1 – Non-current liabilities with covenants	1-Jan-24
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	1-Jan-24

Summary of new standards, amendments and interpretations issued but not adopted.

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

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Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense).	The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.	The Bank has opted not adopt early. No significant impact is expected.
International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12	In May 2023, the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. The amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.	The amendments are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.	The Bank opted to adopt the amendments when due. But no significant change is expected.
Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1	The amendments clarify: • What is meant by a right to defer settlement • That a right to defer settlement must exist at the end of the reporting period • That classification is unaffected by the likelihood that an entity will exercise its deferral right • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification	EThe amendments are effective for annual periods beginning on or after January 1, 2024. Early application is permitted.	The Bank opted to apply the amendments when due.

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Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction ,to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.	The amendments are effective for annual periods beginning on or after January 1, 2024.	The standard is not relevant for the Bank's reporting purpose as of now. The amendments shall be considered when the Bank gets involved in a transaction that involve business combination
Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	The amendments clarify the characteristics of supplier finance arrangements. In these arrangements, one or more finance providers pay amounts an entity owes to its suppliers. The entity agrees to settle those amounts with the finance providers according to the terms and conditions of the arrangements, either at the same date or at a later date than that on which the finance providers pay the entity's suppliers.	The amendments are effective for annual periods beginning on or after January 1, 2024. Early application is permitted.	The Bank shall apply the amendments when due. The amendments are expected to have an impact on the Bank's financial statements.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.	The improvements are effective for annual reporting periods beginning on or after 1 January 2024. Early application is permitted.	The bank shall apply the improvements when due. The improvements are not expected to have an significant impact on the bank's financial statements.
Non-current Liabilities with Covenants (Amendments to IAS 1)	The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	The improvements are effective for annual reporting periods beginning on or after 1 January 2024. Early application is permitted.	The bank shall apply the improvements when due. The improvements are not expected to have an significant impact on the bank's financial statements.

Those standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 recognised 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 amortised 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 amortised 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 thefair 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 includes 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 amortised 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 recognised 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 recognised 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.

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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 amortised 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 realizingcash 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:

Accounting for Asset reclassification

From	To	Requirement
Amortiz	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.
Amortiz	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 recognised for loans and advances to customers and banks, other financial assets held at amortised 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 expected exposure of the bank at the point of default after taking into account the value of any collateral held, repayments, or other mitigants 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.

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(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 recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15

(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 [illegible] 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.

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.

Wadiah (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 provide 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 remain 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. Murahaba (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 holder as providers of funds and entrepreneur as Mudarabah whereby both parties agree 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 recognised 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.

(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 identifed asset for a period of time in exchange of consideration, then the bank consider 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 recognised 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 recognised 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 recognises 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 recognised, 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 2023 and recognised 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 recognises 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 recognised 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 recognised as unearned finance lease income. Finance lease income is recognised 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 recognised 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 recognised 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 cf 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.

4.2.2 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 im

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: Watchlist & Restructu*

The bank classifies accounts that are included on their Watchlist 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 + Watchlist)	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).

Watchlist: 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

(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 cates 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 Bark 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.

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Certified Auditors in Ethiopia Tewodros and Fikre Audit Service Partnership

(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/Product	Macroeconomic factors				
Cluster 1 Agriculture Consumer Loans Overdraft Interest Free Financing	Goods exports, USD	0	-	-	-
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	Goods imports, USD	Nominal GDP, USD	Real GDP, USD (2010 prices)	-	-
Cluster 4 Export Import Advance against Import Bills International Trade	Goods imports, USD	-			

The Bank defined a statistically significant correlation threshold with macroeconomic of 50%. No statistically significant correlation was observed for Cluster 2, as a result no macroeconomic adjustment is observed.
The economic scenarios used included the following key indicators for Ethiopia:

Indicator	30-Jun-22	30-Jun-23	30-Jun-24
Consumer price index inflation, 2010=100, ave	584	763	935
Exports of goods and services, USD	7,949	9,396	10,689
Government domestic debt, LCU	1,311,530	1,601,205	1,831,600
LCU/USD, ave	48	53	57
Nominal GDP, LCU	4,907,655	6,324,877	8,013,282
Private final consumption, LCU	3,602,073	4,706,091	5,637,460
Total domestic demand, LCU	5,199,565	6,554,527	7,774,860
Savings, LCU	1,058,363	1,139,738	1,333,876
Population	119,344,463	122,292,044	125,261,131
Consumer price index inflation, 2010=100, eop	591	757	893
M1, LCU	463,645	519,050	584,105
M2, LCU	1,450,580	1,669,935	1,932,335
Current expenditure, LCU	396,721	510,010	596,728
Goods imports, USD	14,996	15,798	16,433
Goods exports, USD	4,022	4,137	4,393
Current account balance, USD	(4,482)	(4,804)	(4,748)
Import cover months	2	2	2
Total household spending, LCU	4,197,597	5,494,617	6,584,552
Nominal GDP, USD	100,847	115,100	130,089
Real GDP, LCU (2010 prices)	979,927,000,000	1,031,006,500,000	1,097,146,000,000
Real GDP, USD (2010 prices)	68,005,149,345	71,549,973,629	76,139,934,488
Real GDP per capita, USD (2010 prices)	549	567	589
Nominal GDP, USD (PPP)	315,978,796,495	358,557,612,057	394,406,827,578
Private final consumption, USD	74,903	87,766	99,434
Private final consumption per capita, USD	-	-	-
Government final consumption, LCU	406,173	487,844	566,298
Government final consumption, USD	8,490	9,106	9,990
Exports of goods and services, LCU	382,338	503,898	605,981
Exports of goods and services per capita, USD	-	-	-
Imports of goods and services, LCU	740,831	887,821	1,004,879
Imports of goods and services, USD	15,481	16,575	17,735

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Total domestic demand, USD	108,379	122,279	137,135
Total domestic demand per capita, USD	-	-	-
Unemployment, % of labour force, ave	3	3	3
Real effective exchange rate index	25	15	10
LCU/USD, eop	52	55	58
Total revenue, LCU	363,207	476,482	648,397
Total revenue, USD	7,576	8,877	11,412
Total expenditure, LCU	523,143	681,893	857,966
Total expenditure, USD	10,869	12,721	15,114
Current expenditure, USD	8,225	9,525	10,522
Budget balance, LCU	(159,936)	(205,411)	(209,569)
Budget balance, USD	(3,293)	(3,844)	(3,702)
Services imports, USD	5,858	6,267	6,697
Services exports, USD	5,202	5,569	5,898
Total reserves ex gold, USD	2,955	3,160	3,649
Total external debt stock, USD	35,573	40,112	44,667
Long-term external debt stock, USD	**33,809**	**38,315**	42,836

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

The below scenario weightings have been observed:

Summary of scenario weightings

Scenario	Base	Downturn (downside)	Optimistic
Cluster 1	91%	-	-
Cluster 2	100%	-	-
Cluster 3	52%	-	48%
Cluster 4	91%	-	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 EAD.The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from 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 (on balance sheet exposures) as of June 2023

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)	-	-	-	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	(8,161)	-	-	(8,161)
Financial assets derecognized				-
Balance as at 30 June 2023	**(8,161)**	-	-	**(8,161)**

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

In Birr'000	Loans and advances to customers at amortised cost	Investment securities (debt instruments)	Other financial assets	Total charge/(credit)
Net remeasurement 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)**

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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised 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 authorisations 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	2023			
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Stage 1 - Pass	866,267	-	-	866,267
Stage 2 - Special mention	-	-	-	-
Stage 3 - Non performing	-	-	-	-
Total gross	**866,267**	**-**	**-**	**866,267**
Loss allowance	(8,161)	-	-	(8,161)
Net carrying	**858,107**	**-**	**-**	**858,107**

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 inst	12 Month ECL	102,134	-	102,134
Totals		**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 2023. The Bank concentrates all its financial assets in Ethiopia.

30 June 2023	Public Enterpris Birr'000	Cooperative Birr'000	Private Birr'000	Others Birr'000
Cash and balances with banks	731,850	-	-	-
Loans and advances to customers			858,107	-
Investment				
-Financial asset at fair value through OCI		-	2,000	-
-Financial assets at Amortized	102,134	-	-	-
Other assets:		-	26,751	-
	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 2023 Birr'000	30 June 2022 Birr'000
Loan commitments	97,200	-
Letters of credit	42,404	-
	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

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.

30 June 2023	0 - 30 days Birr'000	- 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	813,660	-		143,335	653,911
Due to other banks	-	-	-	-	-
Other liabilities	42,621	1,773	-	-	203.00
Total financial liabilities	**856,281**	**1,773**	**-**	**143,335**	**654,114**

4.3.3 Financial assets pledged as collaterals

The Bank does not have any assets pledged as collateral

4.4 Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility.

The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risk rests with the bank Risk Management and the Board's Risk Committee. The bank Risk Management is responsible for the development of detailed risk management policies and procedures (subject to review and approval by the Board's Risk Committee) and for the day to day implementation of those policies.

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

4.4.1 Management of market r

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 2023	Fixed Interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	293,734	438,116	731,850
Loans and advances to customers	858,107	-	858,107
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	**1,253,975**	**514,719**	**1,768,693**
Liabilities			
Deposits from customers	741,348	869,559	1,610,907
Other liabilities		44,597	44,597
Total	**741,348**	**914,156**	**1,655,504**

30 June 2022	Fixed Interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	-	651,451	651,451
Other assets	-	3,374	3,374
Total	**-**	**654,826**	**651,451**
Liabilities			
Other liabilities	-	92,851	92,851
Total	**-**	**92,851**	**92,851**

31 May 2022	Fixed interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks		644,359	644,359
Other assets		3,373	3,373
Total	**-**	**647,732**	**647,732**
Liabilities			
Other liabilities	-	91,157	91,157
Total	-	**91,157**	**91,157**

(ii) Foreign exchange risk

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

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

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

Foreign currency denominated balances	30 June 2023 Birr'000	30 June 2022 Birr'000
USD	4,020	-
EURO	37	-
	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:

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	30 June 2023 Birr'000	30 June 2022 Birr'000
Effect of 10% increase in exchange rate on profit or loss (USD)	402	-
Effect of 10% decrease in exchange rate on profit or loss (USD)	(402)	-
Effect of 10% increase in exchange rate on profit or loss (EUR)	4	-
Effect of 10% decrease in exchange rate on profit or loss(EUR)	(4)	-

4.5 Capital

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 2023 Birr'000	30 June 2022 Birr'000	May 2022 Birr'000
Capital			
Share capital	890,150	562,419	551,560
Retained earnings	(79,871)	4,901	-
Total Regulatory Capital	**810,279**	**567,320**	**551,560**
Risk weighted balance for on-balance sheet ite	1,965,053	659,646	649,030
Credit equivalents for off-balance sheet Items	685,930	-	-
Total Risk Weighted assets	2,650,983	659,646	649,030
Risk-weighted Capital Adequacy Ratio (CAR)	**30.57%**	**86.00%**	**84.98%**
Minimum required capital	**8.00%**	**8.00%**	**8.00%**

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

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 hierarch

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 2023	30 June 2022	31 May 2022
	Carrying amount Birr'000	Carrying amount Birr'000	Carrying amount Birr'000
Financial assets			
Cash and balances with banks	731,850	651,451	644,359
Loans and advances to customers	858,107	-	-
Investment securities	-	-	-
-Equity	2,000	-	-
-Amortized Cost	102,134	-	-
Other asset	26,751	3,374	3,373
Total	**1,720,841**	**654,826**	**647,732**
Financial liabilities			
Deposits from customers	1,610,907	-	-
Other liabilities	44,597	92,851	91,157
Total	**1,655,504**	**92,851**	**91,157**

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.

		30 June 2023 Birr'000	30 June 2022 Birr'000
5	**Interest income**		
	Loans and advances to customers	27,656	-
	Interest on FTD	35,984	
	National Bank of Ethiopia bills and bonds	4	-
		63,644	**-**

		30 June 2023 Birr'000	30 June 2022 Birr'000
6	Due to customers	9,243	-
		9,243	**-**

		30 June 2023 Birr'000	30 June 2022 Birr'000
7	**Fee and commission income**		
	Foreign currency transactions	20,987	-
	Letter of guarantee	18,924	-
	Other commission	296	-
		40,208	**-**
	Fee and commission expense	-	-
		40,208	**-**

		30 June 2023 Birr'000	30 June 2022 Birr'000
8	**Other operating income**		
	Estimation and inspection fee	1,577	-
	Gain on foreign currency transactions	5,481	-
	Other income	453	3
	Swift and Correspondence charges	75	-
			-
		7,586	**3**

		30 June 2023 Birr'000	30 June 2022 Birr'000
9	**Impairment charge**		
	Loans and advances to customers and other assets - charge	8,161	-
		8,161	**-**

		30 June 2023 Birr'000	30 June 2022 Birr'000
10	**Personnel expenses**		
	Salaries and wages	103,241	799
	Staff allowances	2,356	-
	Pension costs - Defined contribution plan	13,596	-
	Pension costs - Defined benefit plan	61	-
	Other staff expenses	5,431	[illegible]
		124,68[illegible]	**831**

11	Operating expenses	30 June 2023 Birr'000	30 June 2022 Birr'000
	Advertisement and publicity	14,655	-
	Audit fee	132	-
	Bank charges	-	1
	Board of directors remuneration	1,240	440
	Cleaning	184	-
	Data processing	252	-
	Donations	3,608	-
	Entertainment	1,074	-
	Fuel	1,772	12
	Insurance	1,080	-
	Internet	2,372	-
	Legal and professional fee	17	-
	Other operating expense	5,409	4
	Penalty	1,197	7
	Per diem	1,761	
	Rent	23,051	
	Finance Cost of rent	1,434	
	Repair and maintenance	990	10
	Stationeries	13,352	57
	Subscription and membership fee	660	
	Telephone and postage	2	
	Transportation	9,973	149
	Water and electricity	114	
		84,330	**679**

		30 June 2023 Birr'000	30 June 2022 Birr'000
12	**Company income and deferred tax**		
12a	**Current income tax**		
	Company income tax	-	-
	Deferred income tax/(credit) to profit or loss	(50,544)	18
	Total charge to profit or loss	(50,544)	18
	Tax (credit) on other comprehensive income	-	-
	Total tax in statement of comprehensive income	**(50,544)**	**18**

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 2023 Birr'000	30 June 2022 Birr'000
Profit before tax	**(134,836)**	**4,919**
Add : Disallowed expenses		
Entertainment	1,074	-
Donation	358	-
Penalty	1,197	7
Accrued Leave	203	-
Severance pay	61	-
Provision for loans and advances as per IFRS	8,161	-
Depreciation for accounting purpose	19,855	(112)
Amortization for accounting purpose	23,051	-
Total disallowable expenses	**53,96[illegible]**	**(1[illegible])**

Less : Allowable expenses		
Depreciation and amortization for tax purpose	23,537	370
Provision for loans and advances for tax NBE 80%	6,913	
Rent expense	24,157	-
Interest income taxed at source-NBE Bills	4	-
Interest income taxed at source-Local Deposit	35,984	-
Total allowable expenses	**90,594**	**370**
(Loss)/Profit for tax purpose	**(171,469)**	**4,444**
Provision for current tax	-	-

12c Current income tax liability

	30 June 2023 Birr'000	30 June 2022 Birr'000
Balance at the beginning of the year	-	-
Charge for the year:	-	-
Income tax expense	50,544	-
Payment during the year	-	-
Balance at the end of the year	**50,544**	-

12d Deferred income tax

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

	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:			
To be recovered after more than 12 months	285	-	-
To be recovered within 12 months	51,502	-	-
	51,787	-	-

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in profit or loss ("P/L"), in

Deferred income tax assets/(liabilities):	**At 1 June 2022 Birr'000**	**OCI**	**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**	**(18)**	**1,261**	**51,520**	**52,781**
12f **Total deferred tax liabilities**	**(18.20)**	-	**(976)**	**(994)**
Deferred income tax assets/(liabilities):				

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		At 31 May 2022 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2022 Birr'000
	Property, plant and equipment	-	(18)		(18)
	Provisions	-			-
	Accured leave provision	-	-		-
	Tax losses charged to profit or loss	-			-
	Post employment benefit obligation	-	-		-
	Total deferred tax assets/(liabilit	**-**	**(18)**	**-**	**(18)**
12e	**Total deferred tax assets**				**0**
12f	**Total deferred tax liabilities**				**(18)**
	Total deferred tax assets/(liabilit	**-**		**-**	**-**

		30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
13	**Cash and balances with bank**			
	Cash in hand	69,087	-	
	Deposits with local banks	424,468	651,451	644,359
	Deposits with foreign banks	131,595		
		625,150	**651,451**	**644,359**
	Reserve with National Bank of Ethiopia	94,070	-	
	Balance held with National Bank of Ethiopia	12,630	-	
		731,850	**651,451**	

Maturity analysis	30 June 2023	30 June 2022	31 May 2022
Current	637,780	651,451	644,359
Non-Current	94,070	-	-
	731,850	**651,451**	**644,359**

		30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
13a	**Cash and cash equivalent**			
	Cash in hand	69,087	-	
	Deposits with local banks	424,468	651,451	644,359
	Deposits with foreign banks	131,595	-	-
	Balance held with National Bank of	12,630	-	-
		637,780	**651,451**	**644,359**

		30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
14	**Loans and advances to customers**			
	Manufacturing	248,425	-	-
	Export	185,084	-	-
	Import	75,621	-	-
	Domestic trade and service	188,472	-	-
	Building and construction	153,970	-	-
	Diaspora and Institutions Employee Loan	14,695	-	-
	Gross amount	**866,267**	**-**	**-**
	Stage 1 12 month ECL	(8,161)		
	Net Conventional Loan Balance	**858,107**		**-**

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 impairment	As at 30 June 2023 Birr'000	Charge for the year Birr'000	As at 30 June 2022 Birr'000	31 May 2022 Birr'000
Stage 1 12 month ECL	8,161	8,161	-	-
Total impairment allowance	**8,161**	**8,161**	**-**	**-**

	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
15 Investment securities			
Equity Investments	2,000	-	
	2,000	**-**	

15a The following is the equity investments of the Bank as at 30 June 2023:

		30 June 2023 Birr'000		
Investee Company	**Percentage holding**	**Cost**	**Revaluation gain/loss**	**Total**
Oromia Insurance Company s.c	0.20%	2,000	-	2,000
		2,000	**-**	**2,000**

The Bank hold equity investments in Oromia Insurance Company 0.2% (30 June 2023). 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.

16 Amortized Cost:	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Treasury Bond	102,134	-	-
Ethiopian Government Bonds			
Gross amount	**102,134**	**-**	**-**

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Current	-		
Non-Current	102,134	-	-
	102,134		-

17	Other assets	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
	Financial assets			
	Uncleared effects of transfers - Foreign	16	-	-
	Uncleared effects of transfers - Local	(6)	-	-
	Account receivable	26,741	3,374	3,373
	Gross amount	**26,751**	**3,374**	**3,373**
	Less: Specific impairment allowance	-	-	-
		26,751	**3,374**	**3,373**
	Non-financial assets			
	Prepayments	40,038	-	-
	General supplies	7,814	-	-
	Gross amount	**47,852**	-	-
	Net Financial and Non financial asset	**74,603**	**3,374**	**3,373**

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Current	74,603	3,374	3,373
Non-Current	-	-	-
	74,603	**3,374**	**3,373**

18	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

The software has not yet been made fully operational and thus amortization has not been provided for .

Certified Auditors in Ethiopia

Tewodros and Fikre Audit Service Partnership

W.A BAANKII GADAA

No. 02

GADAA BANK S.C.

	Building Birr'000	Motor vehicles Birr'000	Office Equipment Birr'000	Furniture And Fittings Birr'000	Computer equipment Birr'000	Total Birr'000
19 Property, plant and equipment						
Cost:						
As at 31 May 2022	-	-	44	569	1,102	1,716
As at 1 June 2022	-	-	44	569	1,102	1,716
Additions	-	3,926	-	28	-	3,954
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
Accumulated						
As at 31 May 2022	-	-	26	154	238	418
As at 1 June 2022	-	-	26	154	238	418
Charge for the year	-	118	7	86	220	431
Adjustment as per ifrs	-	(105)	(11)	(140)	(287)	(544)
As at 30 June 2022	-	13	22	100	171	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
Net book value						
As at 31 May 2022	-	-	18	415	864	1,298
As at 30 June 2022	-	119,321	38,305	66,891	91,192	5,364
As at 30 June 2023	294,050	111,837	35,359	65,324	84,209	590,779

19a Right of use asset and financial lease liability

A Right -of use asset:		Total
As at 1 July 2022	-	-
Depreciation charge for right-of-use assets	(23,051)	(23,051)
Additions	262,261	262,261
Change		-
Balance at June 2023	239,209	239,209

		30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
20	**Deposits from customers**			
	Demand deposits	795,654	-	-
	Savings deposits	598,013	-	-
	Time deposits	143,335	-	-
	Wadia demand deposits	18,006	-	-
	Wadia savings deposits	55,898	-	-
		1,610,907	**-**	**-**

21	**Other liabilities**			
	Financial liabilities			
	Letter of credit margin payables	22,183	-	-
	CTS Settlement account	107	-	-
	Exchange payable	1,773	-	-
	Cash payement order payable	20,331	-	-
	Staff payables	203	-	-
		44,597	**-**	**-**
	Non-financial liabilities			
	Defined contribution liabilities	6,254	-	-
	Stamp duty charges	100	-	-
	Withholding tax payable	2,621	-	-
	Other tax payable	6,733	6,741	6,132
	Deferred Income Loan Processing Fee	711	-	-
	Deferred Income Guarantee Commission	11,116	-	-
	Deferred Income LC Commission	-	-	-
	Deferred Income	-	-	
	Sundry payables	104,018	86,110	85,025
		131,553	**92,851**	**91,157**
	Gross amount	**176,150**	**92,851**	**91,157**

Maturity analysis	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Current	53,848	6,741	6,132
Non-Current	122,302	86,110	85,025
	176,150	**92,851**	**91,157**

		30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
22	**Retirement benefit obligations**			
	Defined benefits liabilities:			
	- Severance pay (note 22a)	4,264	-	-
	Liability in the statement of financial position	**4,264**	**-**	**-**
	Income statement charge included in personnel expenses:			
	- Severance pay (note 22a)	61	-	
	Total defined benefit expenses	**61**	**-**	
	Remeasurements for:			
	- Severance pay (note 22a)	(4,203)	-	
		(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 2023 Birr'000**	**30 June 2022 Birr'000**	**31 May 2022 Birr'000**
Current	61	-	
Non-Current	4,203	-	-
	4,264	**-**	**-**

22a 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 2023 Birr'000	**30 June 2022 Birr'000**	**31 May 2022 Birr'000**
A Liability recognised in the financial position	4,264	-	-

B Amount recognised in the profit or loss	**30 June 2023 Birr'000**	**30 June 2022 Birr'000**
Current service cost	29	-
Interest cost	32	-
	61	**-**

C Amount recognised in other comprehensive income:		
Actuarial (Gains)/Losses on demographic assumptions		
Actuarial (Gains)/Losses on economic assumptions	(30)	-
Actuarial (Gains)/Losses on experience	(4,173)	-
	(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 2023 Birr'000	**30 June 2022 Birr'000**
At the beginning of the year	-	-
Current service cost	29	-
Interest cost	32	-
Bank Paid Benefits	-	-
Remeasurement (gains)/ losses	4,203	-
At the end of the year	**4,264**	

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Discount Rate (p.a)	20.80%	24.70%	-
Long term salary increases	17.10%	19.30%	-

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 follows:

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 valuation assumed a rate of withdrawal of 15% at the youngest ages falling with increasing

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 2023		
		Base DBO	DBO on Changed	% Change
	Sensitivity	Birr'000	Birr'000	
Discount rate	+1%	4,264	3,754	-12.00%
Discount rate	-1%	4,264	4,848	13.70%
Salary increase	+1%	4,264	4,862	14.00%
Salary increase	-1%	4,264	3,734	-12.40%

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 calculating the pension liability recognised within the

	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
23 Share capital			
Authorised:			
Ordinary shares of Birr 1000 each	1,167,079	[illegible]	[illegible]
Issued and fully paid:			
Ordinary shares of Birr 1000 each	890,150	[illegible]	551,[illegible]60

24 Share premium	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
At the beginning of the year	-		
Adjustment		-	
Addition during the year	-	-	-
	-	-	-

25 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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Profit attributable to shareholders	(84,292)	4,901
Weighted average number of ordinary shares in issue	887,923	562,419
Basic & diluted earnings per share (Birr)	**(0.09)**	**0.01**

26 Retained earnings

At the beginning of the year	4,901	
Profit/ (Loss) for the year	(84,292)	4,901
Transfer to Risk reserve	(480)	-
At the end of the year	**(79,871)**	**4,901**

27 Legal reserve

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.

28 Risk reserve	30 June 2023 Birr'000	30 June 2022 Birr'000
At the beginning of the year	-	
Transfer From Retained Earning	480	-
At the end of the year	**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.

		Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
29	**Cash generated from operating activities**			
	Profit before income tax		**(134,836)**	**4,919**
	Adjustments for non-cash items:			
	Net gain/(loss) on foreign exchange			
	Depreciation of property, plant and equipment	19	19,855	(112)
	Amortisation of intangible assets	18	-	
	Net gain/Loss on disposal of property plant and	8	-	
				(6,313)
	Impairment on loans and receivables	14	8,161	-
	Reversal accumulated Impairment of PPE	14		
	Suspended Irterest Income		-	
	Amortisation of Right use Asset		23,051	-
	Dividend income		-	
	Interest on lease liabilty			-
	Retirement benefit obligations	22	61	-
	Changes in working capital:			
	-Decrease/(increase) in restricted cash	13	-	
	-Decrease/ (Increase) in loans and advances	14	(866,267)	-
	-Decrease/ (Increase) in interest free banking	15	-	
	-Decrease/ (Increase) in other assets	17	(71,229)	(1)
	-Decrease/ (Increase) Non current asset held fo	20a		
	-Decrease/Increase in Customers deposits	20	1,610,907	-
	-Decrease/Increase in Lease liability	20	90,235	
	-Increase/ (Decrease) in other liabilities	21	83,299	:,554
			763,236	**187**

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 parties as at 30 June 2023.

31b 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 2023.

	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Salaries and other short-term employee benefits	7,094	-	
Sitting allowance	-	-	
Other expenses	-	-	
	7,094	**-**	

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

31c Board of Directors compensation

Directors allowances represent monthly allowance of birr 10,000 per month per each member of board of directors of the bank.

	30 June 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Board allowance	1,240	-	-
	1,240	**-**	**-**

31 Contingent liabilities

31a Claims and litigation

The Bank is not a party to legal actions with any organizations and individuals arising from its normal business operations.

31b Contingent Assets

The Bank is not a party to legal actions to against any organizations, current and former employees of the Bank and individuals arising from its normal business operations.

31c *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 2023 Birr'000	30 June 2022 Birr'000	31 May 2022 Birr'000
Financial Guarantees issued		-	-
Letters of credit	42,404	-	-
Loan approved but not disbursed	97,200	-	-
	139,604	**-**	**-**

Commitments
The Bank has commitments, not provided for in these financial statements as of Birr 139.6 million 30, June 2023 for Guarantees issued, Letters of credit,undrawn overdrafts and loans approved but not yet disbursed.

32 Right use of asset and Lease liabilities

The Bank leases various properties(builings) under IFRS 16 Laese agreements. The lease terms are between two and five years, and majority of these lease agreements are renewable at the end of the each lease period at market rate.

The following table shows the remaining contractual maturities of the Company's Lease liabilities and Right use of assets at the end of the current and previous reporting periods.

	30 June 2023 Birr'000		
	Right use of asset	**Lease liabilities**	**Lease liabilities**
Within one year	-	-	3,599
After 1 year but within 2 years	-		4,786
After 2 years but within 5 years	216,051	82,638	88,390
After 5 years	23,158	7,597	15,856
Total	**239,209**	**90,235**	**112,631**

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 2023 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

34 First-time adoption of IFRS for the Bank

These financial statements, for the year ended 30 June 2023, are the first the Bank has prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Untill 31 May 2022, the bank has been underformation and a cuttoff date of the project period on 31 May 2022. Then For periods up to and including the year ended 30 June 2022, the Bank prepared its financial statements in accordance with its accounting framework.

In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 31 May 2022, the Bank's date of transition to IFRS. This note explains the principal adjustments made by the Bank in restating its financial statements prepared under the previous framework, including the statement of financial position as at 31 May 2022 and the financial statements as at and for the year ended 30 June 2022.

In preparing its opening IFRS statement of financial position, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) of Ethiopia and the Commercial code of 2021. An explanation of how the transition from GAAP to IFRS has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the Bank has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Bank are summarised below.
IFRS 1 allows first time adopters certain exemptions from the retrospective application of certain requirements under IFRS.
Following from the principles underpinning IFRS 1, the Bank has applied the following exemptions:

a *Deemed cost for property, plant and Equipment and Intangible Assets*

Property, plant and equipment and Intangible Assets where carryied in the statement of financial position prepared in accordance with previous framework usinf historical cost. The Bank has elected to regard those values as deemed cost at the transition date as carrying value under GAAP and IFRS is not expected to be materially different.

b *Leases*

The Bank has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at 31 May, 2022 the date of

c *Designation of Previously Recognised Financial Instruments*

The Bank has no financial assets as available for sale (AFS) as at the date of transition to IFRS.

34a Reconciliation of Statement of total comprehensive income for the year ended 30

	Notes	GAAP Birr'000	Measurement Birr'000	IFRS as at 30 June 2022
Interest income		-	-	-
Interest expense		-	-	-
Net interest		-	-	-
Commission Income		-	-	-
Commission Expense		-	-	-
Net fees and commission income		-	-	-
Other operating income	D	3	6,313	6,316
Total operating income		**3**	**6,313**	**6,316**
Impairment on Loans and advances		-	-	-
Impairment losses on other assets		-	-	-
Net operating income		**3**	**6,313**	**6,316**
Personnel expenses	C	(1,271)	440	**(831)**
Directors' allowance			(440)	**(440)**
Amortisation of intangible assets/per-operational cost		(1,084)	1,084	-
Depreciation and impairment of property, plant and equipment	A	(431)	544	112
Other operating expenses		(239)	-	(239)
Total Other Operating Expense		**(3,025)**	**1,628**	**(1,397)**
(Loss)/Profit before tax		**(3,021)**	**7,941**	4,919
Income tax expense	F	-	(18)	(18)
Profit after tax		**(3,021)**	**7,923**	**4,901**
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		-	-	-
Total comprehensive income for the period		**(3,021)**	**7,923**	**4,901**

34b Reconciliation of equity as at 30 June 2022

	Notes	GAAP Birr'000	Classification Birr'000	Measurement Birr'000	IFRS as at 30 June 2022 Birr'000
ASSETS					
Cash and balances with banks		651,451	-	-	651,451
Other assets		3,374	-	-	3,374
Right-of-use assets					-
Intangible assets				-	-
Property, plant and equipr	A	4,820	-	544	5,364
Pre-operating Expense	C	50,957	(58,354)	7,397	(0)
Total assets		**710,603**	**(58,354)**	**7,941**	**660,189**
LIABILITIES					
Lease liabilities					-
Other liabilities		92,851	-	-	92,851
Retirement benefit obligation			-	-	-
Deferred tax liability	F		-	18	18
Total liabilities		**92,851**	**-**	**18**	**92,870**

	Notes	GAAP Birr'000	Classification Birr'000	Measurement Birr'000	IFRS as at 30 June 2022 Birr'000
EQUITY					
			-		
Share capital		562,419	-	-	562,419
Share premium	C	58,354	(58,354)	-	-
Retained earnings	B	(3,021)	-	7,923	4,901
Total equity		**617,751**	**(58,354)**	**7,923**	**567,320**
Total liabilities and equity		**710,603**	**(58,354)**	**7,941**	**660,189**
		-	-	-	-

34c Reconciliation of equity as at 31 May 2022

	Notes	GAAP Birr'000	Classification Birr'000	Measurement Birr'000	IFRS as at 31 May 2022 Birr'000
ASSETS					
Cash and balances with banks		644,359	-	-	644,359
Other assets		3,373	-	-	3,373
Pre-operational cost	C	52,041	(58,354)	6,313	-
Property, plant and equipr	A	1,298	-		1,298
Total assets		**701,071**	**(58,354)**	**6,313**	**649,030**
LIABILITIES					
Current tax liabilities		-	-		-
Lease liabilities		-	-	-	-
Other liabilities		91,157	-	-	91,157
Retirement benefit obligation		-	-	-	-
Deferred preoperating inc	D			6,313	6,313
Deferred tax liability		-	-	-	-
Total liabilities		**91,157**	**-**	**6,313**	**97,470**
EQUITY					
Share capital		551,560			551,560
Share premium	C	58,354	(58,354)		-
Retained earnings		-	-	-	-
Total equity		**609,914**	**(58,354)**	**-**	**551,560**
Total liabilities and equity		**701,071**	**(58,354)**	**6,313**	**649,030**

34d Notes to the reconciliation of equity as at 31 May 2022 and 30 June 2022 and total comprehensive income for the year ended 30 June 2022.

	A Property, plant and equipment	30 June 2022	31 May 2022 Birr'000
	Property plant and equipment under previous GAAP	4,820	130
i	Reclassification of non-current asset from other assets	-	-
	Remeasurement:		
ii	Remeasurement of depreciation on property plant and equipment	544	-
iii	Non-capitalisable cost on capital work in progress	-	-
	Roll over adjustments	-	-
		544	-
	Property, plant and equipment as per IFRS	**5,364**	**130**

Notes on reclassification

i Under previous framework, assets that were available for use but not yet put in use by the Bank were classified under other asset and not depreciated. Under IFRS, these assets have been reclasified to the appropriate class of property, plant and equipment and deprciated as appropriate.

Notes on remeasurement

ii The adjustment on property, plant and equipment represent accumulated depreciaticn coumptued on "*fixed asset in store* " and adjustements to adequately recognise the depreciation after the re-estimation of useful life and residual.

	B Retained earnings	30 June 2022 Birr'000	31 May 2022 Birr'000
i	Retained earnings under previous GAAP	(3,021)	-
ii	Remeasurement on accumulated depreciation on property, plant and equipmen	544	-
iv	Adjustment on Preoperational cost	7,397	-
vii	Current and Deferred Tax	(18)	-
	Retained earnings under IRFS	**4,901**	-

	C Pre-operational cost		
i	Retained earnings under previous GAAP		52,041
ii	Remeasurement adjustment		(58,354)
iv	Reclasification		6,313
			-

	D Deferred preoperating income		
i	Retained earnings under previous GAAP		-
ii	Remeasurement adjustment		6,313
			6,313

	E Share premium		
i	Retained earnings under previous GAAP		58,354
ii	Remeasurement adjustment		(58,354)
			-

F <u>Deferred tax</u>		
Retained earnings under previous GAAP	-	
Remeasurement adjustment	18	
	18	

Branch Inauguration Event

Baankii Gadaa
New Generation's Bank

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Gadaa Bank

Date ..../....../.......   M T W T F S S

Notes

Our Special Saving Accounts

Gaammee – Kuusaa Saving Account

Dabballee Saving Account

Dabele Gammee Saving Account

Siinqee Saving Account

Farmers Saving Account

Gadamoji Saving Account

Yubaa Saving Accounts

Provident Fund Solution saving Account

Sabata Saving

Furtu Saving Account

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