Annual Report

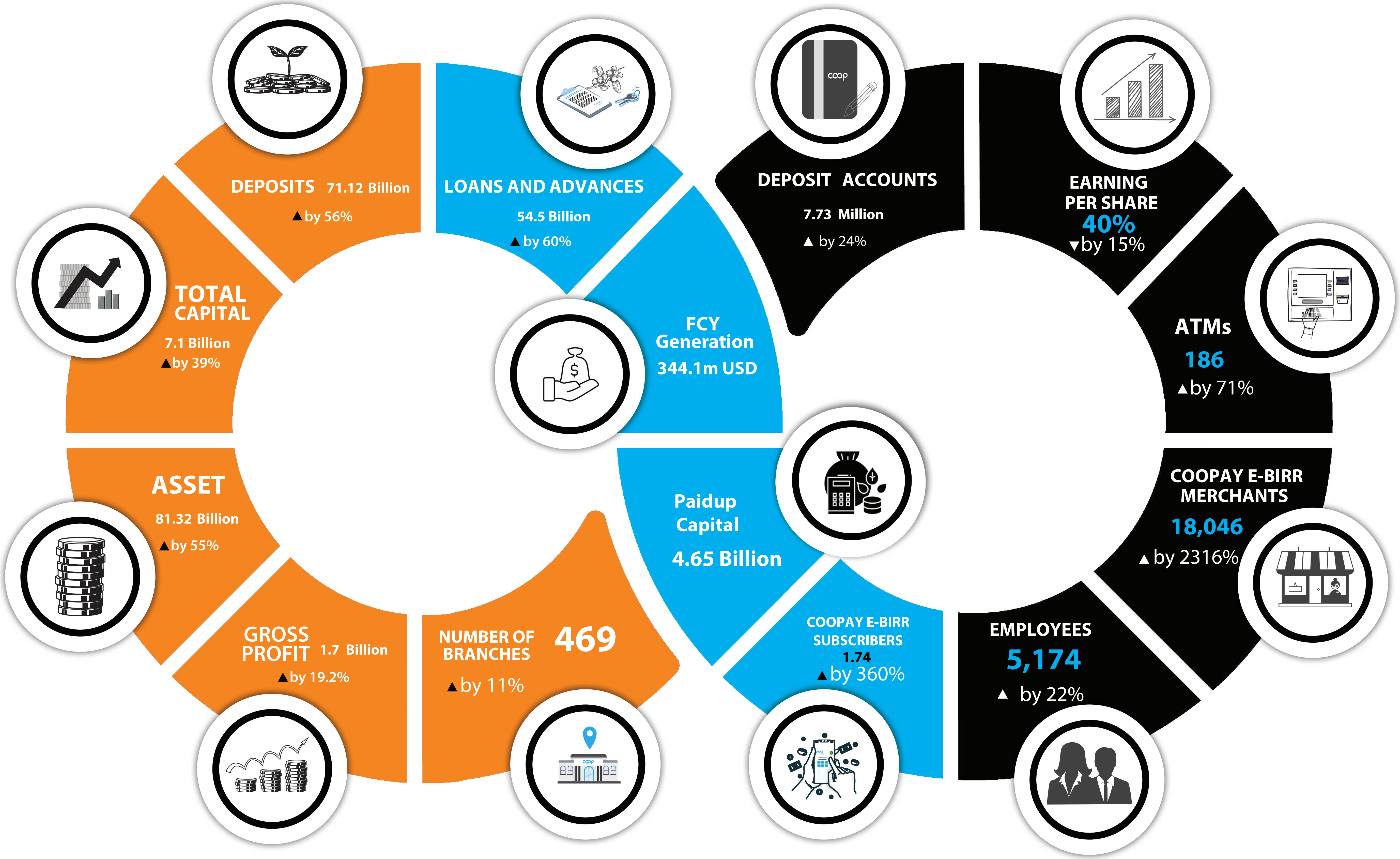
Bank of Oromia

Rooting our foundation in communities!

www.coopbankoromia.com.et

2020/21

PERFORMANCE DASHBOARD



WHAT WE HAVE ACHIEVED
2020/21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Wallet
CoopBank
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Send money
Mobile Top-up
Show Transaction
Water Payment

IN THIS REPORT

Board Chairman's
Message

Dear Respected Shareholders,

I am so pleased to present Coopbank's annual report for the fiscal year 2020/21. During the year, both economic contraction and recovery situations were experienced throughout the globe mainly attributed to the Covid-19 Pandemic effects and the subsequent containment measures taken by nations around the globe. Though the level of contraction and momentum of recovery varies among the nations, the macro-economic growth of every nation was significantly affected by the pandemic related experiences.

The global economy is thus expected to expand by 5.6 percent in 2021 (World Bank, June 2021). The World Bank report further highlights that it is the fastest post-recession pace in 80 years, largely on strong rebounds from a few major economies. However, said the report, many emerging markets and developing economies continue to struggle with the COVID-19 pandemic and its aftermath. In this regard, the economic growth in low-income economies in 2021 is anticipated to be the slowest, with 2.9 percent, in the past 20 years other than 2020, partly reflecting the very slow pace of vaccination.

In the year 2020, the Ethiopian macroeconomy has shown a moderate growth of 6.1percent driven by the services and industry sectors despite the sluggish performance of the pandemic-hit sectors like hospitality, transport and others (ADB, 2021). Whereas, in the year 2021, different economic outlook reports indicate that Ethiopian macro-economic growth would be slowed down largely affected by the pandemic effects and other external challenges.

Although these external factors severely affected the performance of the banking industry and our bank in particular, it was an important year for the bank during which an encouraging performances were achieved. In fact, during the period under review, the Ethiopian banking sector remained strong despite the prevailing severe external challenges.

Coopbank's performance in the FY 2020/21 has ensured value-creation for all stakeholders, including shareholders and customers. In the fiscal year, the bank has registered an outstanding performance in most of the key performance indicators (KPIs).

The bank's balance sheet has grown from its baseline 2019/20 by 54.9 percent to reach ETB 81.32 billion with a significant increment revealed in the bank's liability by 56.7 percent or ETB 26.85 billion and the total capital of the bank has reached ETB 8 billion as of June 30, 2021.

During the fiscal year, the bank has managed to mobilize an additional share capital of ETB 1.65 billion raising the total paid up capital of the bank to ETB 4.65 billion.

As a company committed to strategy and balanced growth, Coopbank is now positioning itself for better accomplishment and on a path to provide healthy and sustainable returns for shareholders. During the fiscal year, the bank registered a gross profit before tax of ETB 1.7 billion. Earnings per share (EPS), therefore, showed a better picture at 40 percent. The result is mainly attributed to the synergy of our employees including management and board of directors, as well as a substantial increase in earnings.

...Board Chairman's Message

The bank has also registered considerable achievements in the strategic and non-financial matters that are considered as leading indicators for the financial matrices' achievements.

Regarding market outreaches, 49 new branches were opened to put the total number of branches at 469. Particularly, Coopbank remains one of the frontrunners in the opening of dedicated branches for the Interest-free banking segment demonstrating the bank's strong commitment to delivering values to the target market. Accordingly, 13 dedicated interest-free banking branches were opened in different parts of the country.

As regards to governance, the role of the Board was as crucial as ever in the year 2020/21 and we needed to ensure that the bank effectively implemented governance and risk models to respond to the challenging environment. Throughout the fiscal year, the board of directors of the bank remained committed to improving the bank's governance practices through better transparency, responsibility and accountability.

Regarding the future, I believe, our long-term success and continued relevance depend on the support and trust of the people we serve and the well-being of the environment in which we operate. Hence, looking ahead, the bank shall work to have the right people, systems and processes to deliver improved results in the coming years.

Finally, on behalf of all my fellow board members, I would like to take this opportunity to thank our stakeholders, mainly the shareholders of the bank, for their continued trust and support. Thank you to the leadership team and to all employees of the bank for their unwavering dedication and guidance. It is my candid hope and confidence that the coming Board, the Senior Management team and the employees will take the bank to a new level of success in the upcoming years.

Board Chairman

Thank you,

Fikru Deksisa (PhD)
Chairman, Board of Directors

> **"As a company committed to strategy and balanced growth, Coopbank is now positioning itself for better accomplishment and on a path to provide healthy and sustainable returns for shareholders.**

REFLECTIONS FROM THE PRESIDENT

"The drive to provide digital products and fast financial solutions to our customers led us to improve our digital operations that have resulted in the improvement of digital transactions during the fiscal year.

REFLECTIONS FROM THE PRESIDENT

Dear valued Shareholders,

In the midst of the current exigent times, our efforts were aimed at delivering maximum value to our esteemed stakeholders through designing fitting and appropriate strategic initiatives. In the fiscal year, we have demonstrated how we should continue to create sustainable growth and stakeholders' value even in such periods. It was the year in which the bank has diligently focused on building its resiliency and strategically aligning itself in the dynamic business environment.

On the other hand, the fiscal year 2020/21 was the year in which the bank has started to implement its new growth strategy. The strategic focus here is to continue expanding its core resources base, expanding its business channels and enriching operating profits. This was driven by the vision of the bank that enabled a strong move across all organs of the bank and among our key stakeholders.

Our focus in this regard was to extensively leverage the available potential financial resources and market intelligence to create synergies and unique value propositions across our customer segments. Accordingly, the bank enhanced its focus on reviewing and implementing its strategy that enabled it improve its performances in different indicators.

On the other hand, the efforts made to be extensively engaged in digital banking operations led us to improve our digital move during the fiscal year. The drive to provide digital products and fast financial solutions to our customers led us to improve our digital operations that have resulted in the improvement of digital transactions during the fiscal year.

Accordingly, the bank has recorded a resilient financial performance in the year with its balance sheet size growing by 54.9 percent from ETB 52.49 billion in the last year to ETB 81.32 billion.

Customers' deposits grew by ETB 25.61 billion or 56.3 percent to ETB 71.12 billion ensuing to creating and maintaining relationships with our clients. The bank was also able to earn a total foreign currency of USD 344.1 million with export constituting the largest share of 58 percent.

The bank's outstanding loans and advances reached ETB 54.5 billion at the end of June 30, 2021, increasing by 59.7 percent from the previous year's value. For this loan portfolio increment, the bank has made a fresh injection or disbursement of ETB 28.55 billion mainly to customers in export, domestic trade, service and manufacturing businesses. Moreover, the bank has managed to maintain its loan quality with an NPL ratio of 1.59 percent, keeping below a regulatory standard of 5 percent and our internal plan.

The bank has made tremendous progress in earnings with income of the bank reaching ETB 8.03 billion. Interest income held the major portion of it, 67.5 percent of the total revenue, being a sustainable source to yield sound benefit to the bank.

On the other hand, the total operating expense was ETB 6.33 billion, increasing by 46.6 percent from the prior year's balance of ETB 4.32 billion. Interest expenses paid on customers' deposit and personnel expenses jointly held a significant share of 57.6 percent from the expenses.

The bank's regular growth of earning assets, together with our unrelenting focus on optimization, enabled the bank to deliver an underlying profit. The profit before tax is, therefore, ETB 1.7 billion, a growth of 19.2 percent from the last year's balance of 1.42 billion.

Besides the financials, I feel that we have also accomplished a number of non-financial and strategic matters that are just as important for our continued success.

The bank is endeavoring to continuously be in the heart of the community and hence increased its retail branch network by 49 to 469 branches. Moreover, by recognizing the role of digital innovations to enrich customer offerings and improve the experience and harness the benefits of faster service, the bank laid important attention to the promotion of the digital ecosystem. Accordingly, the bank managed to recruit 17,092 additional merchants and 1.35 million subscribers to Coopay-Ebirr digital banking service.

Since the bank's commitment to value creation extends beyond creating profits, in the fiscal year, we remained committed to assisting local communities during this challenging time. Aligning with the bank's Corporate Social Responsibility commitments, we implemented community support activities that aim to reach out and uplift the local economy in different areas of the country.

Accordingly, the bank has supported different organizations working in the community. To name a few of our endeavors in this regard, our longstanding and continued support for Oromia Development Association (ODA) to help provide quality education and encourage highly performing students can be noted. Additionally, the bank has sponsored several books, literatures and supported several humanitarian organizations.

Finally, as we look ahead, I would like to restate our continued commitment to deliver the expectation of our shareholders, as well as our customers, communities and many partners as we all play our own important part in our country's economic development. By congratulating all our stakeholders for the success gained, it's an opportune time to extend my appreciation for our hard working employees, our customers and business partners, NBE, and all other stakeholders for your continued commitment.

Thank you,

Deribie Asfaw
President

BOARD OF DIRECTORS

Fikru Deksisa (PhD)
Board Chairperson

Kebede Asefa
Deputy Chairperson

Abera Hailu
Board Director

Tefera Anbessa
Board Director

Fekadu Dugasa
Board Director

Tamiru Takele
Board Director

Elfinesh Alemayehu
Board Director

Teshome Abera
Board Director

Oumar Wabe
Board Director

Alemu Sime (PhD)
Board Director

Teshome Argeta
Board Secretary

EXECUTIVE MANAGEMENT

From Left to Right

BOTTOM ROW

Aman Semir VP, Information System	**Ahmed Hassen** VP, Corporate Banking	**Deribie Asfaw** President	**Liko Tolesa** VP, Human Capital and Projects Management	**Desalegn Tadesse** VP, Retail and SMEs Banking

2ND ROW

Tafesse Fana Chief internal auditor	**Gutema Dibaba** VP, Cooperative Banking	**Gadissa Mamo** VP, Finance and Facilities Management

TOP ROW

Godana Kabato VP, Interest Free Banking	**Tadele Tilahun** Senior Director, Strategy & Business Communications	**Gemeda Miessa** Chief Risk & Compliance Management Officer

Deposits

Deposit is key resource for the bank as it is the major source of funds for offering credit services to customers.

As a result, the bank exerted maximum efforts to mobilize deposit from different customer segments through strengthening customer relationship management, expanding customer base, and implementing different resource mobilization strategies. Furthermore, the bank has expanded its touch points, introduced different deposit products to the market, and put in place effective monitoring and evaluation system.

During the year, the bank attained remarkable performance in incremental deposit mobilization by depicting a growth rate of 56.3 percent (ETB 25.61).

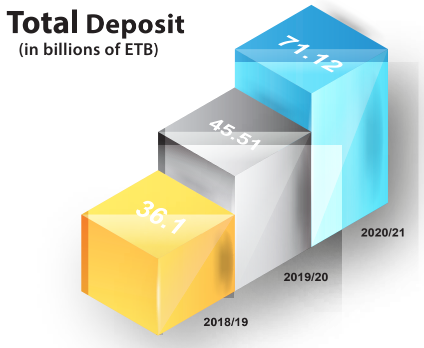
By the end of June 2021, the aggregate deposit of the bank stood at ETB 71.12 billion.

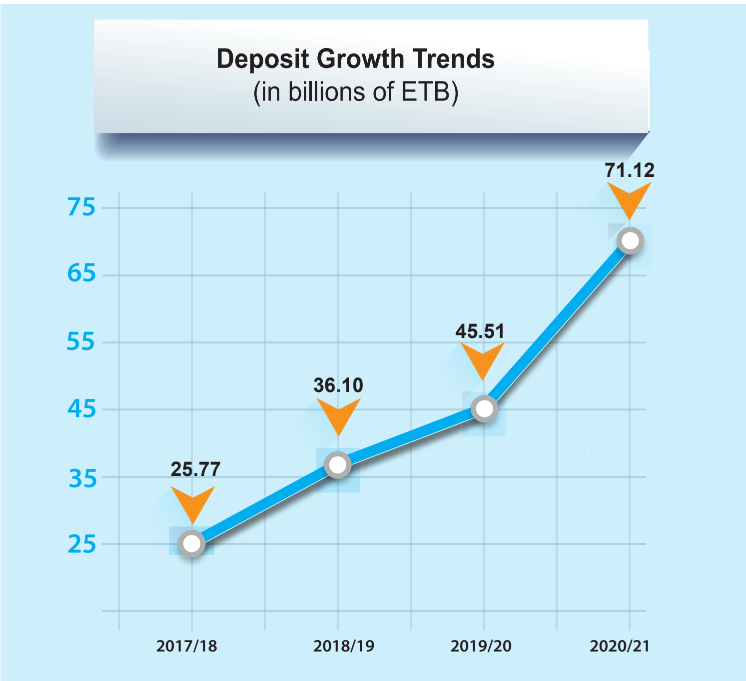
Composition wise, demand deposit registered utmost growth of 79.1 percent and reached ETB 23.79 billion, whereas savings deposit grew by 49.4 percent to ETB 42.58 billion and fixed time deposit boosted by 27.8 percent and stood at ETB 4.75 billion.

During the period under review, saving deposits took the sizable share of 60% followed by demand deposits of 33% and the remaining 7% goes to fixed time deposits.

Deposit by Type
(in billions of ETB)

	2020/21	2019/20	2018/19
Demand	23.79	13.29	11.71
Saving	42.58	28.51	22.95
Fixed Time	4.75	3.72	1.42
Total	71.12	45.51	36.10






Our Customers after opening savings accounts

International Trade

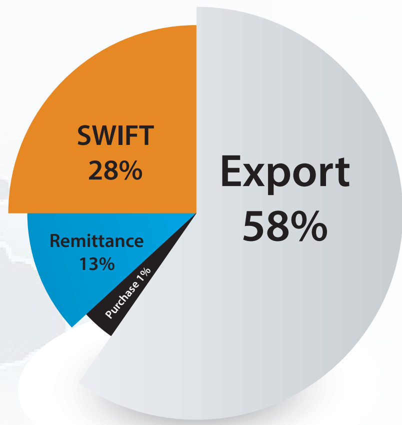
International trade is being realized as one of the key focus areas of our banking operations. During the year, the Covid-19 pandemic had profound impact on global businesses that in turn resulted in weaker performance in foreign currency inflow of the bank. In the year under review, the bank earned total foreign currency inflow of USD 344.1 million which depicted shortfall by -5.3 percent from the prior fiscal year.

The foreign currency earned from export had declined as compared to the last year, but still, contributed the lion's share of what the bank had earned with 58 percent from aggregate foreign exchange inflow.

The earnings from private transfers (remittance and SWIFT) showed positive progress from the last budget year by demonstrating the share of 40.4 percent as compared to the share of 22.3 percent from last fiscal year.

The bank has effectively utilized the foreign currency earned for transacting various international business operations. A significant portion of foreign currency payment with 74.6 percent was effected for facilitating import LC, followed by CAD with 13.1 percent and the remaining 12.3 percent goes to Outgoing TT and others.

In the forthcoming periods, great attention shall be given for mobilizing foreign currency inflow through strengthening partnerships with key stakeholders as well as implementing actionable strategies so as to improve the bank's foreign currency earnings.



Share of Foreign Currency Earnings by Sources

Foreign Currency Earnings
(in million of USD)

Remittance Lotto Prize Winners

Loans and Advances

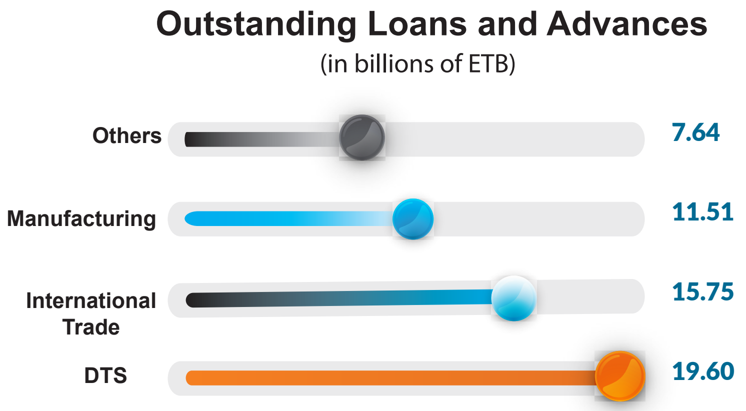
In line with the bank's objective of supporting its customers engaged in various businesses through creating appropriate value propositions, we injected fresh loan amounting to ETB 28.55 billion for financing various economic endeavors.

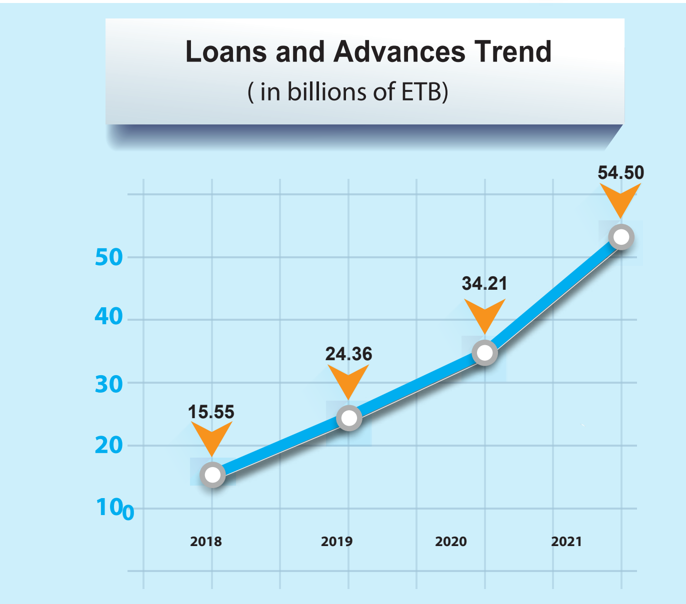
For the year ended 30th June, 2021, the total outstanding loan of the bank stood at ETB 54.5 billion. From the preceding budget year, our loan book grew by 59.7 percent, with an upsurge of ETB 20.37 billion.

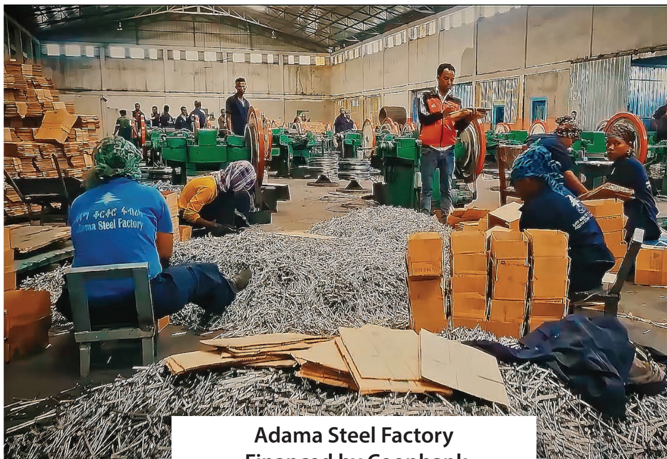
The largest portion of loan portfolio goes to domestic trade and service, constituting 36 percent from the total loans and advances of the bank.

Subsequently, international trade accounts for 28.9 percent followed by manufacturing with share of 21.7 percent. The remaining sectors, on aggregate, constitute 21.1 percent from the total credit portfolio of the bank.

With due emphasis given to asset quality management, the bank's NPLs ratio as at June 30, 2021 was maintained at 1.59 percent and this is lower than the bank's previous year ratio of 2.35 percent as well as the threshold set by the regulatory organ of 5.0 percent.







Adama Steel Factory
Financed by Coopbank

ONE-KOO Coffee
Financed by Coopbank

Profit

With the aim of achieving commendable earnings for our shareholders, the bank registered positive growth trends year on year basis.

Achieving greater return for shareholders require maximizing income generated from the business operations and rationally managing costs so as to attain maximum profits. During the year under review, we were able to earn total income of ETB 8.03 billion, surpassing that of last fiscal year by ETB 2.29 billion (39.8 percent) mainly attributed to the rise in loan portfolio of the bank. Interest income accounted for 67.5 percent of the aggregate income from the total income the bank was able to generate during the year. The combined non-interest income of the bank grew to ETB 2.61 billion, depicting rise of 65.1 percent from the last fiscal year.

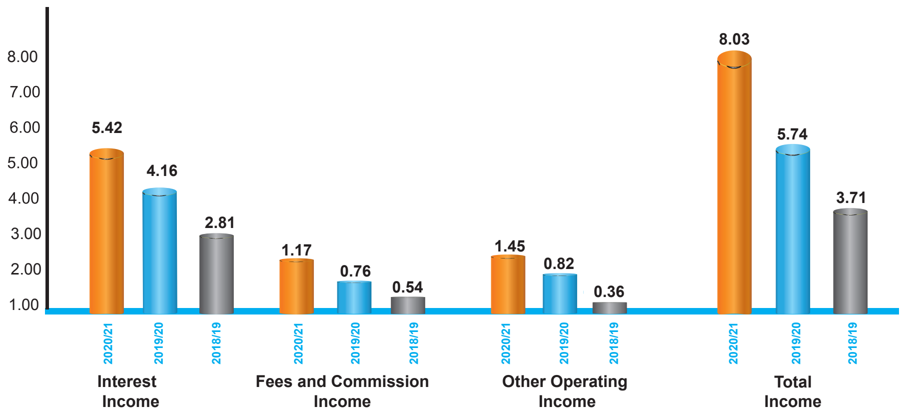
As regards to expenses incurred, the total operating expenses of the bank stood to ETB 6.33 billion, which is higher by ETB 2.01 billion (46.6 percent) from the past fiscal year.

Looking by category, interest expense shares 32 percent, personnel expense accounted for 25.5 percent and the remaining (42.4 percent) goes to other operating expenses.

The gross profit before tax is therefore, ETB 1.7 billion, portraying an increase of ETB 273.44 million or 19.2 percent from last fiscal year. Accordingly, the bank's earnings per share (EPS) became 40 percent for the year ended 30th June 2021.

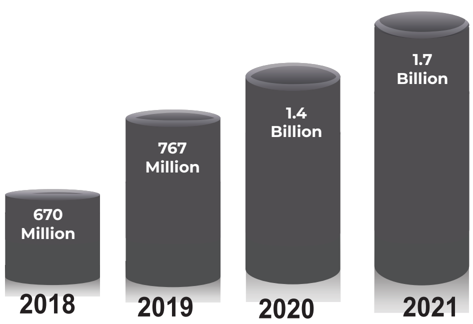
Income by Source

(in billions of ETB)



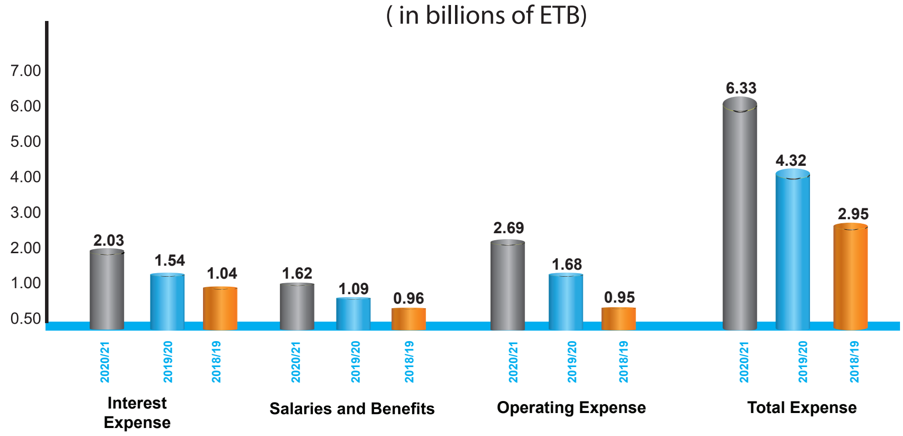
Gross Profit

(in billions of ETB)



Expense Trend by Source

(in billions of ETB)



Deposit Accounts

Derived by our mission that intends to root in the mass community, expanding customer base remains one of the major strategic directions of the bank. Moreover, the low level of financial inclusion in the country coupled with the national financial inclusion strategy which is aimed at promoting banking services to a considerable portion of Ethiopia's population excluded from financial services derives our bank to take various initiatives for expanding its customer base.

During the fiscal year, we had managed to recruit 1.48 million additional deposit customers, which shows an expansion of 24 percent from the previous fiscal year.

As a result, total deposit account of the bank reached 7.73 million at the end of June 2021 that makes Coopbank to maintain its leading position in total deposit customers from private banks. In view of the deposit account category, 75.89% (5.87 million) is conventional type and the remaining 24.11% (1.86 million) goes to Interest Free Banking category.

Considering its significant strategic importance and the bank's mission to reach the mass unbanked community, customer base expansion remains one of our strategic directions by applying enabling digital initiatives, implementing customer recruitment strategies as well as introducing new products and services.


Farmers' Savings Account Opening

Market Expansion

As a company striving to create a greater customer experience, we clearly understood future banking will be dominated by digital platforms. Thus, the traditional bricks and mortars approach shall not be our main strategic concern eventually.

Nonetheless, considering our societies' digital transformation readiness and to enhance the bank's presence in the capital city and other big towns, as well as to widen our dedicated interest-free banking branches at potential areas, opening of physical branches was found important.

Accordingly, 49 new branches were opened, out of which 13 branches are dedicated IFB branches.

Hence, the total branch network of the bank reached 469 by the end of June 2021. About 77.20 percent of our branches are located in outlying areas, making us the bank with the largest branch network in outlying areas from private banks.

Likewise, we remain committed to our mission of rooting our foundation in communities and promoting agriculture and rural development through all possible interventions.

With regard to the productivity of the newly opened branches during the fiscal year, the bank was able to mobilize total deposits of ETB 898.70 million, demonstrating 3.51 percent contribution to the total incremental deposit of the bank. In the upcoming years, we will continue our efforts to reach the mass and local communities by applying proper banking channels mainly focusing on digital outlets.

Our People

During this highly dynamic environment, we understand that the key to success and win the competitive edge lies in the hands of human capital management. Our bank believes that the source of its growth depends on the proper utilization of its human capital along with the utilization of up to date technologies. Accordingly, we have developed and started implementing human capital management (HCM) strategy in a way that drives business value towards a realization of the bank's vision.

The strategy defines how major businesses of HCM including; talent acquisition and onboarding, talent development, succession planning and management as well as employee engagement will be managed so as to successfully achieve the bank's vision.

The bank had also executed other major key human capital management activities to enhance on-boarding, development and effective utilization of its employees. Accordingly, during the fiscal year 1,148 new employees were recruited. This puts total Human Resource strength of the bank to 5,174 as of June 30 of 2021 which depicts an increment of 22 percent from last budget year.

The bank had also conducted different developmental and technical trainings for enhancing its employee competence and strategic awareness.

Among training/development areas which were given attention during the fiscal year were; growth strategy and HCM strategy of the bank, leadership and other operational areas.

In the upcoming periods, due attention shall be given to fully implement the strategy which among others include; introducing objective employee's performance framework and gap based technical and developmental interventions.

Induction Session

Women Empowerment:
The Ultimate Way Forward Workshop

Our Brand and Corporate Social Responsibility

At Coopbank, we believe that being a part of the community is more than our physical location. We feel responsible for the community in which we do business. We take pride in how we strengthen and serve our communities, as these relationships are the core of our business model. We are committed to making business decisions that have a positive societal impact. The bank has formed lasting partnerships with nonprofit organizations in order to enhance health, social and educational opportunities, and others that have positive societal impact.

Accordingly, the bank has supported local and international NGOs like Deborah Foundations, founded to support children with down syndrome, and the Ethiopian Red Cross Society that upholds the values of humanity globally. Besides, as we root ourselves in the farming and pastoral community, we've backed different events meant to benefit the community apart from introducing new and suited Farmers' Savings Account. We have also sponsored officially recognized model farmers.

We took further steps in deepening our roots through working on product and service communication, brand standardization and involving in socially responsible engagements, and ardently interacting with the community.

For we believe that any community cannot flourish unless knowledge is invested, we have consistently been supporting Oromia Development Association in its endeavor to provide quality education for the young generation. In the year, we are able to sponsor outstanding students that were able to complete their preparatory school with great distinction.

Moreover, in order to enlighten the community with knowledge, we have sponsored books and artworks written and produced by different authors.

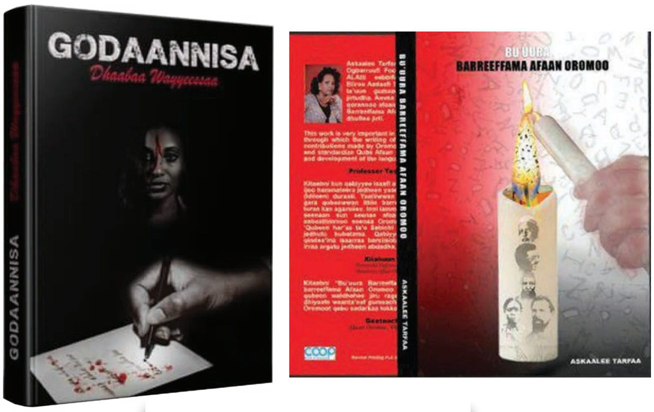
Furthermore, our employees at various levels have publicly made in-kind supports to local committees affected by famine and local challenges.

Generally speaking, in the course of challenging time, we have further strengthened our solid philosophy of being a socially responsible corporate company that continues to serve as a bridge to societal advancement and shield at times of hardships.

Finally, we have continued supporting art and culture, environmental, humanitarian, and various social ends as deemed necessary.

We took further steps in deepening our root through working on product and service communication, brand standardization and involving in socially responsible engagements and ardently interacting with the community we have established in.

...Our Brand and CSR



Books Sponsorship

Series TV Drama Sponsorship

ODA Boarding
School Sponsorship

ONE-KOO Coffee Factory
Inauguration Event Sponsorship

Top Depositors & Model Farmers Award

Athlete Derartu Tullu's
Recognition Program Sponsorship

Digital Banking

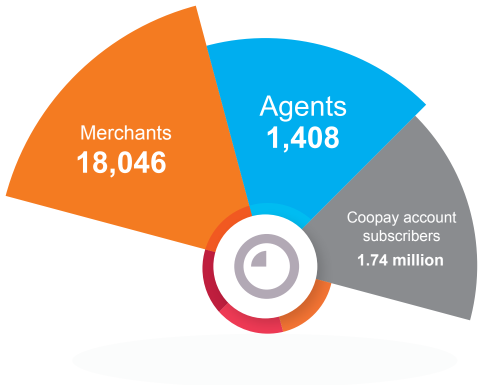
By considering the digital dominance of the future banking, digital transformation is made one of the strategic pillars of the bank. On that account, to enhance the functionality and marketing of our digital platform “Coopay-Ebirr” ecosystem, considerable activities and achievements were registered.

Awareness creations, trainings and public campaigns were made to promote the products and services to the mass. Additionally, integrating the system with key institutional customers like utility providers, road traffic management and others was executed during the year. In this regard, the bank have managed to integrate its system with Addis Ababa Traffic Management Agency- and introduced online traffic penality payment which is the first of its kind for the country.

During the year, 1,393 agents, 17,092 merchants and 1.35 million subscribers were recruited.

This puts total agent, merchant and Coopay account subscribers of the product to 1,408, 18,046 and 1.74 million respectively. On the other hand, 11,826 debit cards were distributed to customers which puts the total number of card banking clients to 279,593.

Coopay E-birr Digital Ecosystem Performance



Other Strategic Achievements

As per our mission, we are striving to extend our roots into the community so as to transform their livelihoods. Therefore, besides rendering credit services to cooperatives and farmers, the bank has developed Farmers Savings and loan products with unique features and incentives to reach the unbanked societies and transform farmers. Accordingly, during the fiscal year we managed to open more than 137,000 farmers account and able to mobilize a deposit amount of ETB 806.00 million.

Loans were given to individual farmers on poultry, dairy farm, mechanization and for working capital. During the year, the bank has financed purchase of 220 tractors for model farmers.

Moreover, the bank has rendered training to more than 6000 model farmers by focusing on entrepreneurship (business creation), financial management, governance and other related areas.

The bank is continuously working on transformation of cooperatives and farmers through supporting manufacturing, mechanized farming and export businesses.

On the other hand, the bank has created strategic partnership and collaboration with various stakeholders including corporate institutions, non-governmental organizations, and civil societies that are understood to being actively involved in work for the benefit of the society whose interests and concerns are related to our mission.

To strengthen the corporate governance of the bank, we had also done various activities in the area of risk management and internal audit. Operational compliance , AML/CFT and compliance regulatory requirements training were provided to more than 200 branch controllers. Additionally, activities such as organizing risk monitoring data, managing compliance irregularities, AML/CFT compliance on-site review, and regular auditing were made. So as to have efficient and standardized operations, various operating policies, procedures, standards, and manuals were also developed and revised.

In a bid to create common strategic consensus and working towards the effective implementation of the strategy, strategic awareness workshop was prepared and training was provided to all employees of the bank at each level. Further, operating model of the bank was revisited and new organizational structure was crafted.

During the fiscal year 2020/21, various construction and pre-construction activities were made. For the already acquired land for main headquarters at the financial hub development area, pre-construction activities have already started. Though its construction is disrupted with the advents of Covid-19 impacts, finalization of transitional headquarters around Bole Rwanda is in progress and will be ready by the upcoming fiscal year.

Similarly, the bank has also reached 90 percent of its G+3 building construction in Waliso town. In the same fashion, in major cities such as Adama, Dire Dawa, Hawassa, Shashamenne, and Jimma the bank is on the move for the construction of own buildings.

INTEREST FREE
BANKING REPORT

Shaikh Salih Nur Ahmed
SAC CHAIRPERSON

Ustaz Kamil Shemsu Siraj
SAC DEPUTY CHAIRPERSON

Shaikh Alfadil Ali Mustefa
SAC MEMBER

Dr. Mohammed Salih Jamal
SAC MEMBER

Dr. Jibril Qamar Adam
SAC MEMBER

Sharia Advisory Committee's (SAC) Remarks

Dear Esteemed Shareholders,

In carrying out the roles and the responsibility of the sharia advisory committee of the bank, as prescribed in the framework of SAC charter issued by the bank and in compliance with our terms of appointment, we hereunder submit the sharia advisory committee's report for the financial year ended June 30, 2021.

As well understood, the sharia advisory committee shall be responsible to form an independent sharia opinion based on review of operations, business affairs and activities in relation to interest free banking business of the bank.

Generally, the roles of this function include providing sharia advisory, managing sharia non-compliance risk, delivering sharia opinion/fatwa and conducting sharia review.

Among the key developments and activities during the financial year, given the bank's due focus on cooperative societies and farmers, we approved new products namely, Farmers wadia saving account and Farmers Mudaraba saving account to address the needs of the marginalized segment of our community.

During the fiscal year, we have approved a penalty fund which the bank collected from late repayment of IFB financings to be distributed to charities and eligible recipients.

The bank has also made a substantial progress with the opening of 13 dedicated Interest Free Banking branches in different areas of the country putting total number of such branches to 25.

Regarding to the operational aspects, we have reviewed the IFB Financing contracts, provided sharia opinions on issues that requires sharia matters and visited the bank's branches of IFB windows to check the operational correctness (segregations), on a sample basis.

The fiscal year also showed a continuation of the bank's remarkable performance in terms of major performance indicators, displaying a continued growth in the market share. The bank's balance sheet of Interest Free Banking Window reached ETB 11.98 billion, and a profit of ETB 552 million was also recorded, during the fiscal year. The total IFB deposit accounts (custom- er base) of the bank has also reached 1.86 million.

To the best of our knowledge, based on the information provided and disclosed to us during discussions and meetings, we hereby confirm that the operations of the bank for the financial year ended 30 June 2021 have been conducted in conformity with the Shari'ah principles.

We want to conclude our remark saying thank you to each and every member of the bank including the leadership of the bank and employees for placing the bank at this position in the country's financial industry. Looking forward, we aspire and urge, the bank should keep its momentum by periodically reviewing its IFB business model, introducing new products, and creating awareness.

IFB Deposits

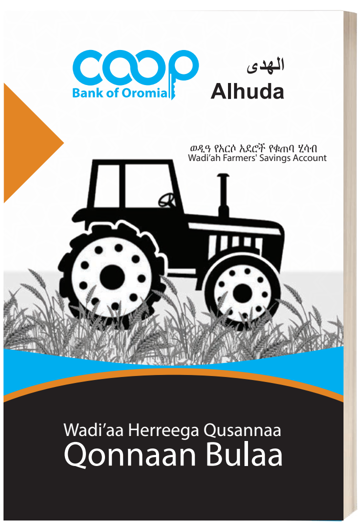
Reinforced by customer relationship management, expanding dedicated branches networks and conducting public awareness creations, we were able to achieve high growth in mobilizing deposits from IFB segments. As a result, an incremental deposit amount of ETB 5.57 billion was mobilized during the year that depicted a remarkable growth of 86.9 percent from the preceding year.

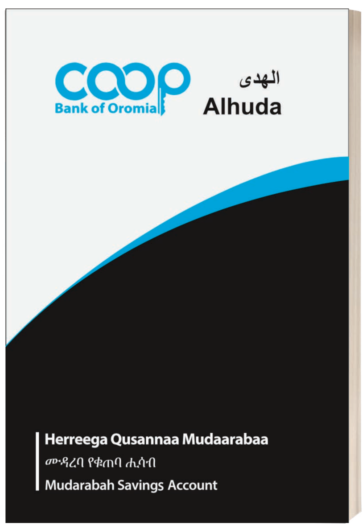
For the year ended 30th June 2021, the IFB deposits position of the bank reached ETB 11.98 billion, holding a 16.8 percent share from the bank's aggregate deposits; and also puts the bank at the leading position from private banks operating in the country.

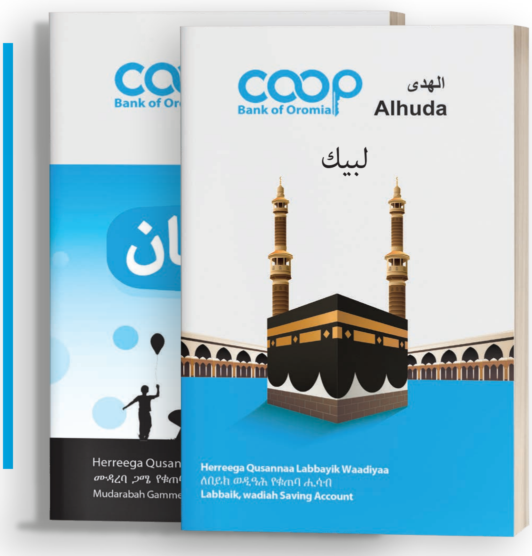
Structure wise, deposits mobilized from Wadia Savings contributed significant share of 78.7 percent followed by Wadia current with 20 percent and Mudaraba accounts 1.3 percent only.

IFB Deposits Mobilization Trends
(in millions)

	2020/21	2019/20	2018/19
Wadia Current	2,394.38	921.32	861.37
Wadia Saving	9,429.27	5,477.77	4,138.99
Mudaraba Accounts	154.98	10.00	
Total	11,978.63	6,409.09	5,000.36





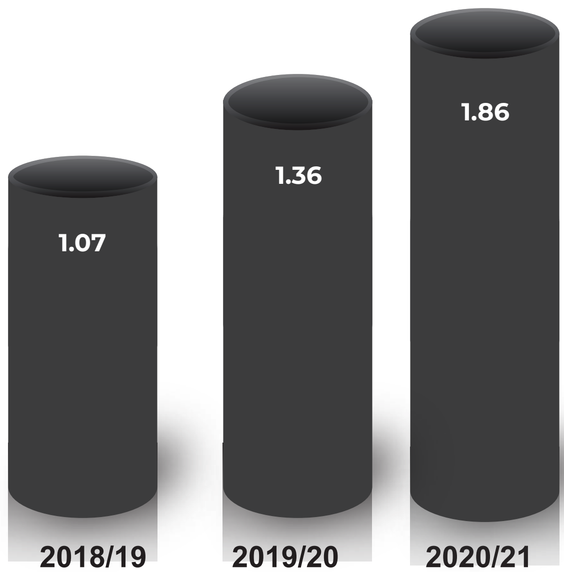


Deposit Accounts

In line with financial inclusion strategy of the country and the bank's endeavor to enhance its deposit mobilization endeavor, recruitment of new IFB customers is still a key focus area of the bank. Accordingly, a total of 501,788 new IFB deposit accounts were recruited during the fiscal year.

As at June 30, 2021, the total IFB deposit accounts of the bank reached 1.86 million. The total deposit account exhibited a growth by 36.8 percent from the prior year and share of 24.1 percent from the total deposit accounts of the bank.

Trend of Deposit Account Opening
(in millions)

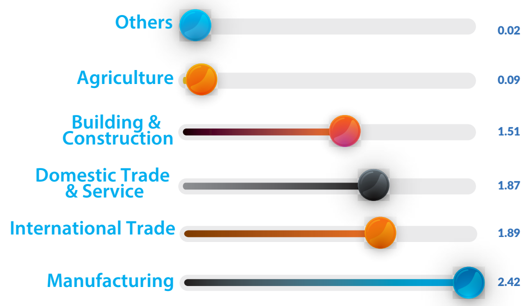


IFB Financing

In order to meet the demand of our Sharia compliant customers, we financed different projects and businesses during the year under review. Consequently, the bank has made additional ETB 5.46 billion to various sectors of the economy. At the end of June, 2021, the total financing volume of the segment stood at ETB 7.82 billion, recording an impressive growth of 98 percent from the prior budget year.

Composition wise, the majority of financing portfolio goes to manufacturing sector with a total amount of ETB 2.42 billion followed by International trade with ETB 1.89 billion and domestic trade and services with ETB 1.87 billion. Furthermore, the non-performing financing of the segment was only 0.44 percent.

IFB Financing by Sector
(in billions)

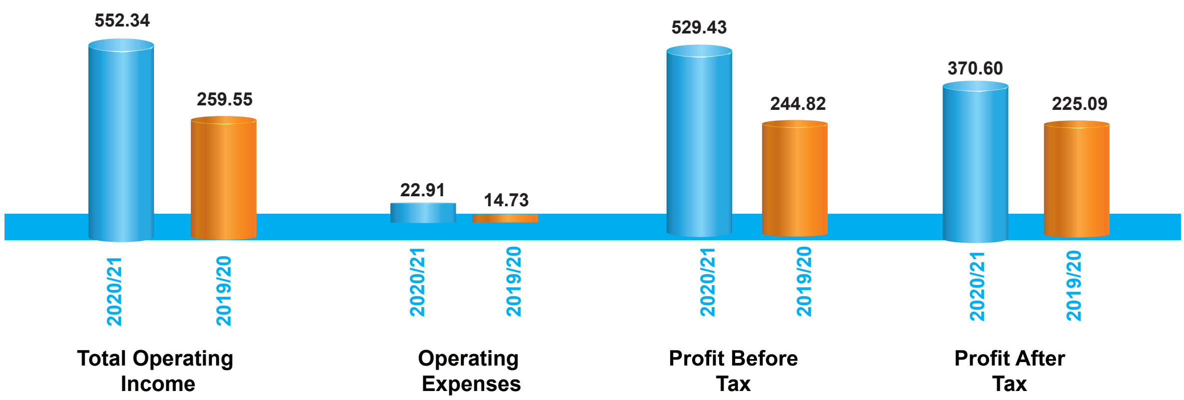


IFB Profit

In terms of profitability, the bank has been registering a decent and progressive profit from the income gained through financing activities and trade service facilities. In view of that, the bank generated ETB 552.34 million revenue from IFB segment registering a growth of 112.8 percent from the last fiscal year. From the total income generated from this segment, ETB 426.71 million was generated from IFB Murabaha financing while the remaining ETB 125.63 million was collected from commission and service charges.

The bank's gross profit generated from the business segment was therefore ETB 529.43 showing a growth of 116.3 percent from the preceding fiscal year.

Trend of IFB Income
(in millions of ETB)

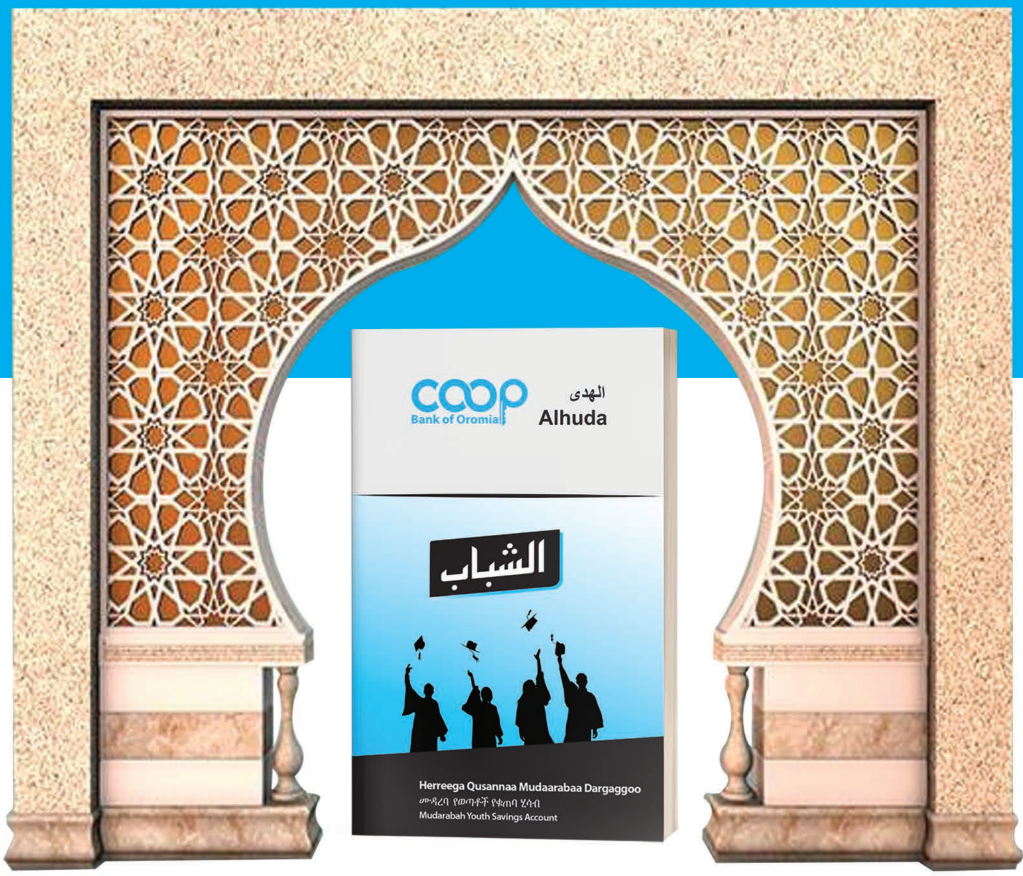


Market Expansion

With the ever-growing demand of the Sharia compliant customers, the bank kept on expanding its accessibility beyond providing services via window model. During the review period, 13 full-fledged IFB dedicated branches were opened in different areas of the country. In the years to come, the bank will expand its accessibility channels making the customers' demands at the core of its business operations.

الشباب

MUDARABAH DARGAGO
YOUTH SAVINGS ACCOUNT



Coop Bank of Oromia

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ENGINEER THE BRIGHTNESS OF
YOUR FUTURE WORLD TODAY!

AUDIT REPORT

Cooperative Bank of Oromia S.C

Financial Statements
For the year ended 30 June 2021
Contents

Cooperative Bank of Oromia S.C
Financial Statements

Directors, professional advisers and registered office
For the year ended 30 June 2021

Company registration number
LBB/008/2004

Directors

Dr Fikru Deksisa	Chairperson	11-Mar-2019
Obbo Kebede Asefa	Deputy chairperson	11-Mar-2019
Adde Elfinesh Alemayehu	Director	11-Mar-2019
Obbo Tefera Anbessa	Director	11-Mar-2019
Obbo Oumar Wabe	Director	11-Mar-2019
Obbo Abera Hailu	Director	11-Mar-2019
Obbo Fekadu Dugasa	Director	11-Mar-2019
Dr Alemu Sime	Director	11-Mar-2019
Obbo Tashome Abera	Director	22-Jul-2021
Obbo Tamiru Takele	Director	27-Feb-2021
Obbo Teshome Argeta	Board secretary	27-May-2016

Executive Management

Obbo Deribie Asfaw	President	14-Dec-2015
Obbo Ahmed Hassen	VP, Corporate Banking Process	1-May-2016
Obbo Aman Semir	VP, Information System	1-May-2016
Obbo Gadissa Mamo	VP, Finance and Facilities Management	17-Sep-2018
Obbo Liko Tolessa	VP, Human Capital and Projects Management	13-Apr-2018
Obbo Desalegn Tadesse	VP, Retail and SME's Banking	1-May-2016
Obbo Tafesse Fana	Chief Internal Auditor	27-May-2016
Obbo Gemmeda Miessa	Chief Risk and Compliance Management	27-May-2016
Obbo Tadele Tilahun	Senior Director, Strategy and Business Communications	13-Apr-2018
Obbo Gutema Dibaba Reba	VP, Cooperative Banking Process	1-Jan-2021
Obbo Godana Kabato Shallah	VP, Interest Free Banking	1-Jan-2021

Independent auditor

Tafesse,Shisema and Ayalew Certified Partneship
Chartered Certified Accountants /UK/ and Authorised Auditors (Ethiopia)
P.O Box 110690
Fax:251 0116221270/60
tmsplus@ethionet.et/tafessef@hotmail.com
Addis Ababa
Ethiopia

Corporate office

Cooperative Bank of Oromia sc
Africa Avenue
Flamingo get house building
P.O Box16936
E-Mail: coopbank@ethionet.et
Website: www.coopbankoromia.com.et
Addis Ababa, Ethiopia

Company secretary
Obbo Teshome Argeta

Principal bankers
National Bank of Ethiopia

Cooperative Bank of Oromia S.C

Financial Statements Report of the directors
Report of the directors
For the year ended 30 June 2021

The Directors submit their report together with the financial statements for the period ended 30 June 2021 to the share holders of cooperative Bank of Oromia share company ("CBO or the Bank"). This report discloses the financial performance of the Bank.

Incorporation and address

Cooperative Bank of Oromia was established in Ethiopia in 2004 in accordance with the Commercial Code of Ethiopia 1960 and licensed by the National Bank of Ethiopia with the objective to engage in banking services in accordance with the Banking proclamation number 84/1994. The Bank commenced operations in 2005 and is domiciled in Ethiopia.

Principal activities

The mission of the Bank is to provide Banking solution that create greater customer experience with emphasis to cooperatives and agro-Based businesses through proper use of human resource and up-to-date technologies to maximize stakeholders value.

Results and dividends

The Bank's results for the year ended 30 June 2021 are set out on the statement of profit or loss and other comprensive income. The profit for the year has been transferred to retained earnings and Risk Reserve. The summarised results are presented below.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Revenue (Interest Income, Commission and operating income)	8,022,003	5,729,008
Profit before tax	1,696,056	1,422,614
Income tax expense	(368,876)	(239,995)
Profit for the year	1,327,180	1,182,619
Other comprehensive income / (loss) net of taxes	(26,324)	23,459
Total comprehensive income / (loss) for the year	**1,300,856**	**1,206,077**

Obbo Teshome Argeta
Company Secretary
Addis Ababa, Ethiopia

Tafesse,Shisema and Ayalew Certified Partneship
Chartered Certified Accountants /UK/ and Authorised Auditors (Ethiopia)

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

Report on the Audit of the financial statement

Opinion

We have audited the financial statements of Cooperative Bank of Oromia Share Company specified on page 26-125,which comprise the statement of financial position as at 30 June 2021, the statement profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
As described in notes 14a and 18a to the financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a complex accounting standard which requires significant judgment to determine the impairment losses.

Responsibilities of Directors for the Financial Statements

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

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

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

Tafesse,Shisema and Ayalew Certified Partneship
Chartered Certified Accountants /UK/ and Authorised Auditors (Ethiopia)

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on other Legal and Regulatory requirement

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

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

Addis Ababa
30 October 2021

Cooperative Bank of Oromia S.C

Financial Statements

Statement of directors' responsibilities
For the year ended 30 June 2021

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"), The Commercial Code of Ethiopia 1960 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 Fikru Deksisa
Chairperson of the Board of Directors
30-Oct-21

Cooperative Bank of Oromia S.C

Financial Statements
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
Interest income	5	5,410,166	4,146,999
Suspended Interest Income	5	6,908	12,730
Interest expense	6	(2,028,568)	(1,544,853)
Net interest income		**3,388,506**	2,614,876
Commission income	7	1,166,681	762,820
Commission expense	7	-	-
Net fees and commission income		**1,166,681**	762,820
Other operating income	8	1,445,157	819,189
Total operating income		**6,000,343**	4,196,885
Loan and other asset impairment	9	(228,040)	(153,458)
Net operating income		**5,772,303**	4,043,428
Personnel expenses	10	(1,617,626)	(1,089,325)
Amortisation of intangible assets	19	(8,410)	(6,938)
Depreciation of property, plant and equipment	20	(127,418)	(94,105)
Other operating expenses	11	(2,322,795)	(1,430,446)
Total Other Operating Expense		**(4,076,248)**	**(2,620,814)**
Profit before tax		**1,696,056**	**1,422,614**
Taxation	12a	(368,876)	(239,995)
Profit after tax		**1,327,180**	**1,182,619**
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	25	(26,324)	8,699
Revaluation Gain-Equity Investment	16	-	14,760
Deferred tax (liability)/asset on remeasurement gain or loss		-	-
		(26,324)	23,459
Total comprehensive income for the period		**1,300,856**	**1,206,077**
Basic Earnings per share (Birr)	27	40	47

The notes on pages [35] to[125] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C

Financial Statements
Statement of financial position
As at 30 June 2021

	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
ASSETS			
Cash and balances with banks	13	14,093,845	6,823,461
Loans and advances to customers	14	45,783,603	29,333,460
Interest free Financing	15	7,816,229	3,949,926
Investment securities:			
-Financial asset at fair value through OCI	16	112,826	112,326
-Financial assets at Amortized cost	17	8,966,193	8,960,090
Other assets	18	2,006,639	1,653,572
Right-of-use assets	18	758,365	513,928
Intangible assets	19	82,500	33,148
Property, plant and equipment	20	1,571,729	983,020
Non-Current Asset Held For Sale	20a	109,646	125,553
Deferred Asset	12d	19,384	-
Total assets		**81,320,959**	**52,488,484**
LIABILITIES			
Deposits from customers	21	70,390,028	44,942,667
Due to other banks	22	728,376	568,214
Borrowing From NBE	23	41,687	-
Current tax liabilities	12c	396,833	208,436
Lease liabilities	24	112,632	102,722
Other liabilities	24	2,412,976	1,444,476
Retirement benefit obligation	25	93,983	52,927
Deferred tax liability	12d	49,023	58,165
Total liabilities		**74,225,539**	**47,377,607**
EQUITY			
Share capital	26	4,651,021	3,000,000
Share premium	26	8,672	8,672
Retained earnings	28	950,393	793,223
Legal reserve	29	1,243,812	912,017
Risk reserve	30	237,590	393,033
Capital reserves	31	3,932	3,932
Total equity		**7,095,420**	**5,110,876**
Total liabilities and equity		**81,320,959**	**52,488,484**

The notes on pages [35] to[125] are an integral part of these financial statements.

The financial statements were approved and authorized for issue by the board of directors on October 30, 2021 and were signed on its behalf by:

Dr Fikru Deksisa
Chairperson of the Board of Directors

Deribie Asfaw
President

Cooperative Bank of Oromia S.C

Financial Statements
Statement of changes in equity
For the year ended 30 June 2021

	Notes	Sharecapital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Legalreserve Birr'000	Capital contribution Birr'000	Risk Reserve Birr'000	Total Birr'000
As at 30 June 2019		**2,048,699**	**8,672**	**334,524**	**616,350**	**3,932**	**277,384**	**3,289,561**
As at 1 July 2019		**2,048,699**	**8,672**	**334,524**	**616,350**	**3,932**	**277,384**	**3,289,561**
Profit for the period	28			1,182,670				1,182,670
Suspended Interest Income	5			(12,730)	-	-	12,730	-
Fair value gain-Equity investment	16						14,760	14,760
Other comprehensive income:								
Re-measurement gains/loss on defined benefit plans (net of tax)	25						8,699	8,699
Total comprehensive income for the period		**2,048,699**	**8,672**	**1,504,463**	**616,350**	**3,932**	**313,574**	**4,495,689**
Issue of shares	26	951,301	-	-	-	-	-	951,301
Tax Paid		-	-	-				-
Dividend Paid		-		(334,524)	-	-	-	(334,524)
Director's share of profit	24	-	-	(1,590)	-	-	-	(1,590)
Transfer to Risk Reserve				(79,459)			79,459	-
Transfer to legal reserve		-	-	(295,667)	295,667	-	-	-
		951,301	-	(711,240)	295,667	-	79,459	615,187
As at 30 June 2020		**3,000,000**	**8,672**	**793,223**	**912,017**	**3,932**	**393,033**	**5,110,877**
As at 1 July 2020		**3,000,000**	**8,672**	**793,223**	**912,017**	**3,932**	**393,033**	**5,110,877**
Profit for the period	28			1,327,180				1,327,180
Suspended Interest Income	16			(6,908)	-	-	6,908	-
Reversal of RRR(Loan provision)							(173,020)	(173,020)
Transfer to RRR(severance)				(10,670)			10,670	
Fair value gain-Equity investment	16						-	-
Other comprehensive income:								
Re-measurement gains/loss on defined benefit plans (net of tax)	25			(26,324)				(26,324)
Reversal of severance liability				363				363
Total comprehensive income for the period		**3,000,000**	**8,672**	**2,076,864**	**912,017**	**3,932**	**237,590**	**6,238,712**
Issue of shares	26	1,651,021	-	-	-	-	-	1,651,021
Tax Paid		-	-	-				-
Dividend Paid		-		(793,223)	-	-	-	(793,223)
Director's share of profit	24	-	-	(1,453)	-	-	-	(1,453)
Transfer to Risk Reserve				-			-	-
Transfer to legal reserve	29	-	-	(331,795)	331,795	-	-	-
		1,651,021	-	(1,126,471)	331,795	-	-	856,345
As at 30 June 2021		**4,651,021**	**8,672**	**950,393**	**1,243,812**	**3,932**	**237,590**	**7,095,420**

The notes on pages [35] to[125] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C

Financial Statements

Statement of cash flows

For the year ended 30 June 2021

	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
Cash flows from operating activities			
Cash generated from operations	32	5,958,158	(789,209)
Dividend Paid		(793,223)	(334,524)
Directors allowance		(1,590)	(1,590)
Profit Tax Paid		(208,436)	(105,365)
Withholding tax paid		(570)	(36)
Net cash (outflow)/inflow from operating activities		**4,954,339**	**(1,230,724)**
Cash flows from investing activities			
Purchase of NBE bills and bonds		(6,102)	(674,229)
Purchase of equity investments	16	(500)	(43,514)
Purchase of property, plant and equipment	20	(703,359)	(321,680)
Proceeds from Disposal		34,585	3,207
Non-Current Asset Held For Sale	20a		621
Purchase of Intangible Asset	19	(57,761)	(5,321)
Net cash (outflow)/inflow from investing activities		**(733,137)**	**(1,040,916)**
Cash flows from financing activities			
Finance Lease		(1,961)	-
Proceeds from borrowings	23	41,687	
Proceeds from issues of shares	26	1,651,021	951,301
Net cash (outflow)/inflow from financing activities		**1,690,747**	**951,301**
Net increase/(decrease) in cash and cash equivalents		**5,911,949**	**(1,320,339)**
Cash and cash equivalents at the beginning of the year	13a	4,520,536	5,304,640
Effects of exchange rate movement on cash and cash equivalents	8	(62,605)	536,234
Cash and cash equivalents at the end of the year		**10,369,880**	**4,520,536**

The notes on pages [35] to[125] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C
Financial Statements
Notes to the Financial Statements
For the year ended 30 June 2021

1. General information

Cooperative Bank of Oromia SC ("CBO or the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established in 24 October 2004 in accordance with the provisions of the Commercial code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 592/2008. The Bank registered office is at:

Africa Avenue

Flamingo get house building

Addis Ababa, Ethiopia

The Bank is principally engaged in providing Banking solution that create greater customer experience with emphasis to cooperatives and agro-Based businesses through proper use of human resource and up-to-date technologies to maximize stakeholders value.

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, 2021 (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 as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

The financial statements comprise;

- Statement of Financial Position
- Statement of Profit or Loss and Other Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements

Cooperative Bank of Oromia S.C
Financial Statements
Notes to the Financial Statements
For the year ended 30 June 2021

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.

2.2.2 Basis of measurement

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

I. Fair value through other comprehensive income and fair value through profit and loss, financial assets and financial liabilities (including derivative instruments) and investment properties measured at fair value
II. Assets held for sale - measured at fair value less cost of disposal; and
III. The liability for defined benefit obligations recognized at the present value of the defined benefit obligation less the fair value of the plan assets and plan assets measured at fair value.

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

2.2.3 Going concern

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

2.3 Changes in accounting policies and disclosures

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

Cooperative Bank of Oromia S.C
Financial Statements
Notes to the Financial Statements
For the year ended 30 June 2021

I. New standards, amendments and interpretations effective and adopted during the year

Definition of Material – amendments to IAS 1 and IAS 8

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendment also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

II. New standards, amendments and interpretations issued not yet effective

The below new accounting standards and interpretations have been published that are not mandatory for June 2021 reporting periods and have not been early adopted by the bank.

Title	Key requirements	Effective Date
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	Originally 1 January 2021, but extended to January 2023 b IASB in March

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Classification of Liabilities a Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g., the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2022 [deferred to 1 January 2023]
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PPE) prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asse t is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	January 1, 2022

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Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date.	January 1, 2022

These 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.

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

2.5 Recognition of income and expenses

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

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

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

2.5.1 Interest and similar income and expense

For all government bills and bonds and interest-bearing financial assets measured at amortized cost interest income or expense is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation considers 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.

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

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

2.5.2 Fees and commission income and expense

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

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

2.5.3 Interest paid on borrowings, deposits and others

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

2.5.4 Dividend income

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

2.5.5 Rental income

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

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

2.6 Financial instruments - initial recognition and subsequent measurement
2.6.1 Financial assets

Initial recognition and measurement

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

I. Financial instruments measured at amortized cost

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

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

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice.

In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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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.

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The table below summarizes the accounting treatment on reclassification:

Accounting for Asset reclassification

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

De-recognition 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 de-recognition 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:

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(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 re-cognized for loans and advances to customers and banks, other financial assets held at amortized cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to consider a range of possible future economic scenarios, and applying this to the estimated exposure of the bank at the point of default after considering the value of any collateral held, repayments, or other mitigates of loss and including the impact of discounting using the effective interest rate.
At each reporting date, the Bank shall assess whether there is objective evidence that financial assets (except equity investments), other than those carried at FVTPL, are impaired.
The Bank shall recognize loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

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

No impairment loss shall be recognized on equity investments.

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

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

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

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

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

A. 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.

B. 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.

C. 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.

D. Presentation of allowance for ECL in the statement of financial position

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

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

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

E. 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.

F. 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

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Initial accounting for financial guarantees by the issuer

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

Subsequent measurement

Financial guarantees are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 and
- The amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15

G. 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.

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Collateral Repossessed

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

2.6.2 Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at amortized cost

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

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

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The Bank's financial liabi lities 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

Cooperative Bank of Oromia was beginning interest free banking services in February, 2015, 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.

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

2. Wadia Demand Deposit Account

Wadia demand deposit account Is the type of deposit that do not give any returns to the depositor and can be withdrawn by the depositor up on demand. For this deposit 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 travelling.

4. Unrestricted Investment Accounts

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

5. Restricted Investment Accounts

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

6. Ijarah

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

7. Istisna'a

It is a sale contract between the ultimate purchaser and seller whereby the seller, based on an order from the purchaser, undertakes to have manufactured/build the subject matter of the contract according to specification and sell it to the purchase for an agreed

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upon price and method of settlement whether that at time of contracting, by installments or deferred to a specific future time.

7.1 Parallel Istisna'a

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

8. Murabaha (Cost Plus)

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

9. Mudarabah

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

10. Mutharika (joint venture)

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

11. Salam

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

11.1 Parallel Salam

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

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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 is determined by comparing the net proceeds from disposal Gains and losses arising on disposal of an item of property and with the carrying amount of the item and are recognized net within 'other operating income' in profit or loss.

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

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

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

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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:

- Computer software – 6 years
- Core application 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.

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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 considered. 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.

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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.

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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, considering 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.

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- 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 Directo r 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 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;

ii) provident fund contribution, funding under this scheme is 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.

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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.

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2.16 Provisions

Provisions are recognized when the has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recog nized 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. Bas ic 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.

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2.20 Leases

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

(a) Bank as a lessee

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

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

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

The bank assessed all lease contracts live in 2021 and recognized as RoU of assets of all leases, except short term and low value of assets as per the Banks' own policy set as per IAS 16 and IFRS 16.

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

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

(d) Bank as a lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases.

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When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognized as a receivable, net of allowances for expected credit losses, within loans and advances to banks and customers.

The difference between the gross receivable and the present value of the receivable is recognized as unearned finance lease income. Finance lease income is recognized in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

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

2.21 Income taxation

a. Current income tax

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

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

b. Deferred tax

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

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

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

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

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

- Capital Director Note 4.5
- Financial risk Director 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, Director has 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 considered which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

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

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

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

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

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

III. **Exposure at Default (EAD):** EAD modelling estimates annual outstanding exposure on each loan facility over the remaining lifetime from the reporting period. The EAD for each period is calculated based on the contractual cash flows of each loan account using the reducing balance method. The exposure at default assumed by management to be the mid-year EAD for facilities with monthly and quarterly repayment schedules. This is to reflect the assumption of uniform distribution of default events throughout the year. For semi - annual and annual repayment schedules, exposure at default will be assumed by management to be the reporting date EAD

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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 loaning that experience migration from "Pass" to "Special Menti on" 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 4.7.2 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.

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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 considering 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 considered 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.

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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.

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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 program seeks to minimize potential adverse effects of financial performance of the Bank. The Board of Directors provides written principles for overall financial risk management and written policies covering specific areas, such as credit risk, market risk (including foreign exchange risk, interest rate risk and equity price risk) and liquidity risk. Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Bank's policy guidelines are complied with. Risk management is carried out by the Bank Risk team under the policies approved by the Board of Directors.

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

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

4.1.1 Risk Management Structure

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

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

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

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

4.1.2 Risk Measurement and Reporting Systems

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

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

4.1.3 Risk Mitigation

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

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

4.2 Credit Risk

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

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

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

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

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

4.2.1 Management of Credit Risk

In measuring credit risk of loans and receivables to various counterparties, the Bank considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counter party/obligor and its likely future developments, credit history of the counterparty/obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out. Our credit exposure comprises wholesale and retail loans and receivables which are developed to reflect the needs of our customers.

The Bank's policy is to lend principally on the basis of our customer's repayment capacity through quantitative and qualitative evaluation. However, we ensure that our loans are backed by collateral to reflect the risk of the obligors and the nature of the facility.

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

A. Probability of Default

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

B. Loss Given Default

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.

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C. Exposure at Default

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

4.2.2 Expected credit loss measurement

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

A. Inputs, Assumptions and Techniques Used for Estimating Impairment

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

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

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

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 are 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+

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Bank of Oromia
Cooperative Bank of Oromia

Accounting and auditing Board of Ethiopia
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Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

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(ii) Forward transitions: Watchlist & Restructure

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 + Watch list)	0 - 89
Substandard	90- 179
Doubtful	180 - 360
Loss	365+

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

Current: Relates to assets classified as "Investment Grade" (no evident weakness).

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

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

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

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

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

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C. Credit risk grades

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

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

i) Term loan exposures

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

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

ii) Overdraft exposures

Payment record this includes:

- Overdue status as well as a range of variables about payment ratios
- Utilization of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

D. Generating the term structure of PD

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

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The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

E. Determining whether credit risk has increased significantly

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

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

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

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

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

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

- The criteria do not align with the point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

F. Definition of default

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

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

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

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

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

G. Incorporation of Forward-Looking Information

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.

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

In line with the expected, as well as experienced, Expected Credit Loss forward - looking volatility arising from the economic impact of the Covid -19 global crisis, the Bank has conducted, and overlaid, additional scenario analysis on the macroeconomic overlay model. This includes application of higher probability weights on the downside scenario, lower probability weights on the upside scenario, as well as stress tests on macroeconomic projections.

The Bank continues to monitor the economic impact of Covid -19 on its credit risk profile as well as forward - looking Expected Credit Loss estimates and shall update the same on its IFRS 9 forward - looking estimates as and when significant changes in the overall macroeconomic environment are experienced.

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

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

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

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

Sector/ Product	**Macroeconomic Factors**				
Agriculture and Consumer	**INFLATION:** Consumer price index, 2010=100, aver	***EXCHANGE RATE:*** ETB/USD, aver	**GDP EXPENDITURE:** Exports of goods and services, USD per capita	**DEBT:** Government domestic debt, ETB bn	**STRATIFICATION:** Household Spending, ETB bn
Domestic Trade & Service and Transport	**GDP:** GDP per capita, USD	**GDP EXPENDITURE:** Imports of goods and services, USDbn	**INFLATION:** Consumer price index, 2010 = 100, eop	**EXCHANGE RATE:** ETB/USD, aver	**FISCAL:** Total revenue, USDbn
Building & Construction and Manufacturing	**GDP EXPENDITURE:** Exports of goods and services, USD per capita	**FISCAL:** Current expenditure, USDbn	**DEBT:** Government domestic debt, ETBbn	-	-
Export and Import	**GDP EXPENDITURE**: Exports of goods and services, ETBbn	**GDP EXPENDITURE**: Imports of goods and services, ETBbn	**EXCHANGE RATE:** Real effective exchange rate, index	**GDP EXPENDITURE:** Private final consumption, USDbn	**DEBT:** Total government debt, USDbn

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The economic scenarios used as at 30 June 2020 included the following key indicators for Ethiopia for the years 2020 to 2022:

Macro-economic factor	2021	2022
INFLATION: Consumer price index, 2010 = 100	470.4	517.4
GDP: GDP per capita, USD	889	1004
GDP EXPENDITURE: Exports of goods and services, USD per capita	72.1	80.3
GDP EXPENDITURE: Exports of goods and services, ETB bn	291.7	342.9
EXCHANGE RATE: ETB/USD	34.31	35.34
GDP EXPENDITURE: Imports of goods and services, USD bn	31.4	35.9
FISCAL: Current expenditure, USD bn	9.6	10.9
GDP EXPENDITURE: Imports of goods and services, ETB bn	1077.9	1270.6
INFLATION: Consumer price index, 2010 = 100	470.4	517.4
DEBT: Government domestic debt, ETB bn	872.3	1003.1
EXCHANGE RATE: Real effective exchange rate, index	124.12	122.16
GDP EXPENDITURE: Private final consumption, USD bn	81.9	95
STRATIFICATION: Household Spending, ETB bn	2503.8	2991.5
FISCAL: Total revenue, USD bn	10.3	11.6
DEBT: Total government debt, USD bn	67.1	77

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.

Scenario probability weightings

As at June	2021			2020		
	Upside	**Median/Central**	**Downside**	**Upside**	**Median/Central**	**Downside**
Cluster 1	0%	50%	50%	0%	50%	50%
Cluster 2	0%	50%	50%	0%	50%	50%
Cluster 3	0%	50%	50%	0%	50%	50%
Cluster 4	0%	50%	50%	0%	50%	50%

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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 recognition, 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 recognition, 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 select ive 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 'Genera ting 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.

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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.

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J. Loss allowance

The following tables show reconciliations of loans and advances to customers at amortized cost (on balance sheet exposures) as of 30 June 2021.

In Birr'000	2021			
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 2021	**391,527**	**1,843**	**452,389**	**845,759**
Transfer to stage 1 (12 months ECL)	637	(234)	(404)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	(1,090)	1,096	(6)	0.00
Transfer to stage 3 (Lifetime ECL credit impaired)	(1,115)	1,121	(5)	-
Net re-measurement of loss allowance	(14,832)	1,320	90,871	77,358.76
New financial assets originated or purchased	98,733	498	1,521	100,752
Financial assets derecognized	(80,073)	(759)	(39,900)	(120,732.09)
Balance as at 30 June 2021	**393,786**	**4,886**	**504,466**	**903,138**

In Birr'000	**2020**			
Loan commitments and financial guarantee contracts (off balance sheet exposures)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 July 2019	**35,644**	**41**	**38**	**35,722**
Transfer to stage 1 (12 months ECL)	7	(7)	-	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net re-measurement of loss allowance	(732)	-	-	(732)
New financial assets originated or purchased	7,363	-	-	7,363
Financial assets derecognized	(16,814)	(33)	(38)	(16,885)
Balance as at 30 June 2020	**25,469**	**-**	**-**	**25,469**

The following table provides a reconciliation for 30 June 2021 between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class

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of financial instrument; and the 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.

	2021				
In Birr'000	Cash and balances with banks	Investment securities (debt instruments)	Emergency staff loans	Other receivables and financial assets	Total
Other financial assets (debt instruments)					
Balance as at 1 July 2020	**232.64**	**447.97**	**228.17**	**57,806.92**	**58,715.70**
Net re-measurement of loss allowance	293.04	0.34	181.18	(27,047.01)	(26,572.46)
New financial assets originated or purchased	-	-	-	-	-
Balance as at 30 June 2021	**525.68**	**448.31**	**409.35**	**30,759.91**	**32,143.25**

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 advancesto customers at amortized cost	Investment securities (debt instruments)	Other financial assets	Total charge/(credit)
Net re-measurement of loss allowance	77,359	0.34	(26,573)	50,786
New financial assets originated or purchased	100,752	-	-	100,752
Financial assets derecognized	(120,732)	-	-	(120,732)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Balance as at 30 June 2021	**57,378**	**0**	**(26,573)**	**30,806**

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4.2.3 Credit- related commitments

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

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4.2.4 Credit quality analysis

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

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

In Birr'000	2021				2020
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Stage 1 – Pass	53,192,712	-	-	53,192,712	30,717,653
Stage 2 – Special mention	-	177,675	-	177,675	135,161
Stage 3 - Non performing	-	-	1,211,007	1,211,007	1,083,717
Total gross exposure	**53,192,712**	**177,675**	**1,211,007**	**54,581,394**	**31,936,531**
Loss allowance	(393,786)	(4,886)	(504,466)	(903,138)	(820,336)
Net carrying amount	**52,798,925**	**172,790**	**706,542**	**53,678,256**	**31,116,195**

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In Birr'000	2020				2019
Off balance sheet items	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Stage 1 – Pass	2,476,368	-	-	2,476,368	2,119,615
Stage 2 – Special mention	-	-	-	-	9,192
Stage 3 - Non-performing	-	-	-	-	45
Total gross exposure	**2,476,368**	**-**	**-**	**2,476,368**	**2,128,852**
Loss allowance	(25,469)	-	-	(25,469)	(35,722)
Net carrying amount	**2,450,899**	**-**	**-**	**2,450,899**	**2,093,131**

In Birr'000		2021		
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	10,513,556	(526)	10,513,030
Investment securities (debt instruments)	12 Month ECL	8,966,193	(448)	8,965,745
Other receivables and financial assets	Lifetime ECL	5,640,951	(30,760)	5,610,191
Emergency staff loans		411,487	(409)	411,078
Totals		**25,532,188**	**(32,143)**	**25,500,044**

In Birr'000		2020		
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	4,652,732	(233)	4,652,499
Investment securities (debt instruments)	12 Month ECL	8,959,414	(448)	8,958,967
Other receivables and financial assets	Lifetime ECL	999,711	(57,761)	941,950
Emergency staff loans		150,547	(228)	150,319
Totals		**14,762,405**	**(58,670)**	**14,703,735**

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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 2021, 30 June 2020 and 30 June 2019. The Bank concentrates all its financial assets in Ethiopia.

30 June 2021	Public Enterprise	Cooperative	Private	Others
	Birr'000	Birr'000	Birr'000	Birr'000
Cash and balances with banks	14,093,845	-	-	-
Loans and advances to customers	8,681,490	4,835,626	41,747,893	-
Investment securities:				
-Financial asset at fair value through OCI	112,826	-	-	-
-Financial assets at Amortized cost	8,966,193	-	-	-
Other assets:	-	-	-	-
	31,854,354	**4,835,626**	**41,747,893**	-

30 June 2020	Public Enterprise	Cooperative	Private	Others
	Birr'000	Birr'000	Birr'000	Birr'000
Cash and balances with banks	6,823,461	-	-	-
Loans and advances to customers	4,260,433	3,878,851	26,074,580	-
Investment securities:				
-Financial asset at fair value through OCI	112,326	-	-	-
-Financial assets at Amortized cost	8,960,090	-	-	-
Other assets:	-	-	-	-
	20,156,310	**3,878,851**	**7,555,700**	**658,550**

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30 June 2019	Public Enterprise	Cooperative	Private	Others
	Birr'000	Birr'000	Birr'000	Birr'000
Cash and balances with banks	7,169,647	-	-	-
Loans and advances to customers	220,310	3,204,260	20,966,100	-
Investment securities:				
-Financial asset at fair value through OCI	74,566	-	-	-
-Financial assets at Amortized cost	8,285,861	-	-	-
Other assets:	8,343	-	-	-
	15,758,726	**3,204,260**	**20,966,100**	**-**

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 2021	30 June 2020	30 June 2019
	Birr'000	Birr'000	Birr'000
Loan commitments	3,196,000	3,401,936	2,728,990
Guarantees	8,535,530	5,262,566	939,850
Letters of credit	2,008,110	1,627,508	1,441,140
	13,739,640	**10,292,009**	**5,109,980**

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.

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

4.3.1 Management of liquidity risk

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

4.3.2 Maturity analysis of financial liabilities

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

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30 June 2021	0 - 30 days Birr'000	31 - 90 days Birr'000	91 -180 days Birr'000	181 -365 days Birr'000	Over 1 year Birr'000
Deposits from customers	24,256,857	773,270.17	1,421,245.14	1,658,282.53	42,576,490.74
Due to other banks	432,260	-	-	-	-
Other liabilities	391,907	1,694,847.00	-	-	438,852.00
Total financial liabilities	**25,081,023**	**2,468,117.17**	**1,421,245.14**	**1,658,282.53**	**43,015,343.74**
Loan commitments	3,196,000	-		-	-
Guarantees	998,560.71	1,932,233	1,150,257	3,833,754.39	615,997.13
Letters of credit	1,110,245	2,100,820	76,035	-	-
Total commitments	**5,304,805**	**4,033,054**	**1,226,291**	**3,833,754.39**	**615,997.13**

Assets used to manage liquidity risk

30 June 2020	0 - 30 days Birr'000	31 - 90 days Birr'000	91 -180 days Birr'000	181 -365 days Birr'000	Over 1 year Birr'000
Deposits from customers	12,064,018	-	-	-	-
Due to other banks	300,239	-	-	-	-
Other liabilities	1,388,554	-	-	-	-
Total financial liabilities	**13,752,811**	**-**	**-**	**-**	**-**
Loan commitments	3,401,936	-		-	-
Guarantees	-	5,262,566	-	-	-
Letters of credit	-	1,627,508	-	-	-
Total commitments	**3,401,936**	**6,890,073**	**-**	**-**	**-**

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Assets used to manage liquidity risk

	0 - 30 days	31 - 90 days	91 -180 days	181 -365 days	Over 1 year
30 June 2019	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Deposits from customers	10,767,394	-	-	-	-
Due to other banks	85,362	-	-	-	-
Other liabilities	1,556,218	-	-	-	-
Total financial liabilities	**12,408,974**	**-**	**-**	**-**	**-**
Loan commitments	2,728,996	-	-	-	-
Guarantees	-	939,850	-	-	-
Letters of credit	-	1,441,140	-	-	-
Total commitments	**2,728,996**	**2,380,990**	**-**	**-**	**-**

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.

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

4.4.1 Management of market risk

The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while 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 r ates 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 2021	Fixed Interest	Non-interest bearing
	Birr'000	Birr'000
Assets		
Cash and balances with banks	14,093,845	-
Loans and advances to customers	45,782,606	-
Interest free banking	-	7,816,229.08
Investment securities	-	
-Financial asset at fair value through OCI	112,826	-
-Financial assets at Amortized cost	8,966,193	-
Other assets	2,007,720	-
Total	**70,963,190**	**7,816,229**

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Liabilities		
Deposits from customers	32,696,125	37,693,904
Due to other banks	728,376	-
Other liabilities	2,412,976	-
Total	**35,837,477**	**37,693,904**

30 June 2020	**Fixed interest**	**Non-interest bearing**
	Birr'000	**Birr'000**
Assets		
Cash and balances with banks	6,823,461	-
Loans and advances to customers	29,333,460	-
Interest free banking	-	3,949,926
Investment securities	-	
-Financial asset at fair value through OCI		112,326
-Financial assets at Amortized cost	8,960,090	-
Other assets	1,653,572	-
Total	**46,770,584**	**4,062,252**
Liabilities		
Deposits from customers	22,747,992	22,194,675
Due to other banks	568,214	-
Other liabilities	1,444,476	-
Total	**24,760,682**	**22,194,675**

(ii) Foreign exchange risk

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

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

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

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Foreign currency denominated balances

	30 June 2021	30 June 2020
	Birr'000	Birr'000
USD	87,892	37,797.35
EURO	7,353	4,612.94
GBP	244	4,733
DIRAHM	868	1,074.37
RIYAL	377	869.33
JPY	2,985	2,985
Total	**99,719**	**14,275**

Sensitivity analysis for foreign exchange risk

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

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

	30 June 2021	30 June 2020
	Birr'000	Birr'000
Effect of 10% increase in exchange rate on profit or loss (USD)	8,789.17	473
Effect of 10% decrease in exchange rate on profit or loss (USD)	**(8,789)**	**(473)**
Effect of 10% increase in exchange rate on profit or loss (EUR)	735	461
Effect of 10% decrease in exchange rate on profit or loss (EUR)	**(735)**	**(461)**
Effect of 10% increase in exchange rate on profit or loss (GBP)	24	473.30
Effect of 10% decrease in exchange rate on profit or loss (GBP)	**(24)**	**(473)**
Effect of 10% increase in exchange rate on profit or loss (DIRAHM)	87	107
Effect of 10% decrease in exchange rate on profit or loss (DIRAHM)	**(87)**	**(107)**
Effect of 10% increase in exchange rate on profit or loss (RIYAL)	38	87
Effect of 10% decrease in exchange rate on profit or loss (RIYAL)	**(38)**	**(87)**
Effect of 10% increase in exchange rate on profit or loss (JPY)	298.53	299
Effect of 10% decrease in exchange rate on profit or loss (JPY)	**(299)**	**(299)**

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4.5 Capital Management

The bank's objectives in managing capital are:

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

Risk-weighted assets are calculated in accordance with regulatory guidelines.
Credit risk-weighted assets are measured by applying a hierarchy of risk weights related to the nature of the risks associated with on- and off-balance sheet asset classes.
Operational risk- weighted assets are calculated by applying a scaling factor to the bank's average gross income.
Market risk-weighted assets are calculated by applying factors to the bank's trading exposures to foreign currencies, interest rates, and prices.

4.5.1 Capital adequacy ratio

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

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

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

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	30 June 2021	30 June 2020	30 June 2019
	Birr'000	Birr'000	Birr'000
Capital			
Share capital	4,651,021	3,000,000	2,048,699
Retained earnings	-	793,223	334,524
Capital reserves	3,932	3,932	3,932
Share Premium	8,672	8,672	8,672
Legal reserve	1,243,812	912,017	616,350
Total	**5,907,437**	**4,717,844**	**3,012,176**
Risk weighted assets			
Risk weighted balance for on-balance sheet items	57,380,353	37,096,746	30,609,062
Credit equivalents for off-balance sheet Items	6,265,116	4,939,178	5,109,980
Total regulatory capital	**63,645,469**	**42,035,924**	**35,719,042**
Total risk weighted assets			
Risk-weighted Capital Adequacy Ratio (CAR)	**9.28%**	**11.22%**	**8.43%**
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.

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4.6.1 Valuation Models

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data. In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

4.6.2 Financial instruments not measured at fair value - Fair value hierarchy

The following table summarizes the carrying amounts of financial assets and liabilities at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

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	30 June 2021	30 June 2020	30 June 2019		30 June 2018	
	Carrying amount	Carrying amount	Carrying amount	Fair Value	Carrying amount	Fair Value
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Financial assets						
Cash and balances with banks	14,093,845	6,823,461	7,169,649	7,169,649	7,676,779	7,676,779
Loans and advances to customers	45,783,603	29,333,460	21,404,500	21,404,500	14,711,523	14,711,523
Interest free financing	7,816,229	3,949,926	2,202,251	2,202,251	437,278	437,278
Investment securities	-	-	-	-		
-Equity Investment	112,826	112,326	74,566	74,566	40,269	40,269
-Amortized Cost	8,966,193	8,960,090	8,285,861	8,285,861	5,430,184	5,430,184
Other asset	2,006,639	1,653,572	1,736,322	1,736,322	913,932	913,932
Total	**78,779,335**	**50,832,835**	**40,873,149**	**40,873,149**	**29,209,965**	**29,209,965**

Financial liabilities						
Deposits from customers	70,390,028	44,942,667	35,845,307	35,845,307	25,392,151	25,392,151
Due to other banks	728,376	568,214	322,984	322,984	415,439	415,439
Other liabilities	2,412,976	1,444,476	2,153,314	-	-	-
Total	**73,531,380**	**46,955,357**	**38,321,605**	**36,168,291**	**25,807,590**	**25,807,590**

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.

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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 were 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.

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Interest free banking statement of profit or loss
For the year ended 30 June 2021

	30 June 2021 Birr'000	30 June 2020 Birr'000
Commission income	125,631	42,037
Income from trade financing	426,712	217,511
Total operating income	**552,343**	**259,548**
Other operating expenses	(22,911)	(14,725)
	529,432	244,823
Profit before tax	**529,432**	**244,823**
Income tax expense	(158,829)	(19,737)
Profit after tax	**370,602**	**225,086**

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Interest free banking statement of financial position

As at 30 June 2021

	30 June 2021 Birr'000	30 June 2020 Birr'000
ASSETS		
Cash and balances with banks	737,728	490,485
Net loan and advance	7,816,229	3,949,926
Profit Receivable	2,302,193	769,175
Other assets	737,000	1,198,660
Total assets	**11,593,150**	**6,408,246**
LIABILITIES		
Deposits from customers	11,593,150	6,408,246
Other liabilities	-	-
Total liabilities	**11,593,150**	**6,408,246**

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		30 June 2021 Birr'000	30 June 2020 Birr'000
5	**Interest income**		
	Loans and advances to customers	4,882,115	3,467,303
	Suspended Interest Income	6,908	12,730
	National Bank of Ethiopia bills and bonds	380,666	369,141
	Due from other banks	147,385	310,555
		5,417,074	**4,159,730**

		30 June 2021 Birr'000	30 June 2020 Birr'000
6	Due to customers	2,028,568	1,544,853
		2,028,568	**1,544,853**

		30 June 2021 Birr'000	30 June 2020 Birr'000
7	**Fee and commission income**		
	Foreign currency transactions	811,999	604,765
	Letter of guarantee	198,215	91,012
	Other commission	156,467	67,043
		1,166,681	**762,820**
	Fee and commission expense	-	-
		1,166,681	**762,820**

		30 June 2021 Birr'000	30 June 2020 Birr'000
8	**Other operating income**		
	Income from murabaha financing	426,712	217,511
	Dividend income	7,694	314
	Estimation and inspection fee	25,662	24,412
	Gain on disposal of property plant and equipment	12,896	2,571
	Gain on foreign currency transactions	917,946	536,234
	Other income	50,871	36,480
	Rental income	3,092	1,612
	Telephone, postages and money bags	284	54
		1,445,157	**819,189**

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		30 June 2021 Birr'000	30 June 2020 Birr'000
9	**Impairment charge**		
	Loans and advances to customers and other assets - charge for the year	228,040	153,458
		228,040	**153,458**

		30 June 2021 Birr'000	30 June 2020 Birr'000
10	**Personnel expenses**		
	Salaries and wages	997,880	667,829
	Staff allowances	101,816	85,832
	Staff Award	124	515
	Pension costs – Defined contribution plan	109,353	73,164
	Pension costs – Defined Benefit plan	15,095	13,996
	Prepaid staff expenses	29,833	11,564
	Other staff expenses	363,525	236,425
		1,617,626	**1,089,325**

		30 June 2021 Birr'000	30 June 2020 Birr'000
11	**Operating expenses**		
	Advertisement and publicity	96,103	57,932
	Amortisation of leasehold	14	-3
	Audit fee	386	477
	Bank charges	(74.54)	445
	Board of directors remuneration	1,200	1,290
	Cleaning	3,305	4,523
	Data processing	6,572	6,269
	Donations	28,047	23,505
	Entertainment	2,692	1,438
	Fuel	10,331	8,238
	Insurance	15,937	18,083
	Internet	40,745	18,774
	Legal and professional fee	2,799	188
	Other operating expense	386,000	247,390
	Penalty	17,876	469
	Per diem	15,746	11,067
	Rent	249,831	221,131
	Finance Cost of rent	2,947	-
	Repair and maintenance	41,902	18,426
	Representation allowance	62,050	50,315
	Stationeries	58,658	42,423
	Subscription and membership fee	3,561	3,093
	Taxes	24	7
	Telephone and postage	225	218
	Transportation	107,393	83,548
	Water and electricity	9,048	6,614
	Loss on foreign exchange transactions	1,159,478	604,588
		2,322,795	**1,430,446**

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		30 June 2021 Birr'000	30 June 2020 Birr'000
12	**Company income and deferred tax**		
12a	**Current income tax**		
	Company income tax	397,402	208,472
	Deferred income tax/(credit) to profit or loss	(28,526)	31,523
	Total charge to profit or loss	368,876	239,995
	Tax (credit) on other comprehensive income	-	0
	Total tax in statement of comprehensive income	368,876	239,995

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 2021 Birr'000	30 June 2020 Birr'000
Profit before tax	**1,669,732**	**1,422,614**
Add : Disallowed expenses		
Entertainment	2,692	1,438
Donation	5,047	23,505
Legal provision	20	(760)
General Assembly	2,073	2,485
Penalty	17,876	469
Accrued Leave	23,195	-
Prepaid staff expense	29,832	-
Loss on foreign exchange transactions	241,532	
Severance pay	41,419	16,132
Provision for loans and advances as per IFRS	228,040	153,458
Depreciation for accounting purpose	127,418	(52,356)
Amortization for accounting purpose	8,410	1,290
Total disallowable expenses	**727,553**	**145,660**
Less : Allowable expenses		
Depreciation and amortization for tax purpose	186,297	148,114
Provision for loans and advances for tax NBE 80%	139,565	213,577
Interest income taxed at source foreign	-	393
Dividend income taxed at source	7,264	-
Interest income on staff loans	28,766	-
Reversal of Regulatory Risk reserve	173,020	
Reversal on Severance pay	10,670	10,835
Interest income taxed at source-NBE Bills	379,704	368,831
Interest income taxed at source-Local Deposit	147,326	131,616
Total allowable expenses	1,072,611	873,367
Taxable profit	1,324,674	694,907
Current tax at 30%	**397,402**	**208,472**

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12c **Current income tax liability**	**30 June 2021 Birr'000**	**30 June 2020 Birr'000**
Balance at the beginning of the year	208,436	105,366
Charge for the year:	397,402	208,472
Income tax expense	(208,436)	(105,366)
Payment during the year	(569)	(36)
Balance at the end of the year	**396,833**	**208,436**

12d **Deferred income tax**

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

	30 June 2021 Birr'000	**30 June 2020 Birr'000**
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(29,639)	(58,165)
To be recovered within 12 months		
	(29,639)	**(58,165)**

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

Deferred income tax assets/(liabilities):	**At 1 July 2020 Birr'000**	**Credit/ (charge) to P/L Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2021 Birr'000**
Property, plant and equipment	(59,754)	10,731		(49,023)
Provisions	-			-
Accured leave provision	-	6,958		6,958
Tax losses charged to profit or loss	-			-
Post employment benefit obligation	1,589	10,837		12,426
Total deferred tax assets/(liabilities)	**(58,165)**	**28,526**	**-**	**(29,639)**
Total deferred tax assets				**19,384**
Total deferred tax liabilities				**(49,023)**

Deferred income tax assets/(liabilities):	**At 1 July 2019 Birr'000**	**Credit/ (charge) to P/L Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2020 Birr'000**
Property, plant and equipment	(32,977)	(26,777)		(59,754)
Provisions	-			-
Unrealised exchange gain	-			-
Tax losses charged to profit or loss	-			-
Post employment benefit obligation	6,335	(4,746)		1,589
Total deferred tax assets/(liabilities)	**(26,642)**	**(31,523)**	**-**	**(58,165)**

Deferred income tax assets/(liabilities):	**At 1 July 2018 Birr'000**	**Credit/ (charge) to P/L Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2019 Birr'000**
Property, plant and equipment	(27,154)	(5,823)		(32,977)
Provisions	-			-
Unrealised exchange gain	-			-
Tax losses charged to profit or loss	-			-
Post employment benefit obligation	3,842	2,493		6,335
Total deferred tax assets/(liabilities)	**(23,312)**	**(3,330)**	**-**	**(26,642)**

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Deferred income tax assets/(liabilities):	At 1 July 2017 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2018 Birr'000
Property, plant and equipment	(10,708)	(16,446)		(27,154)
Provisions				-
Unrealised exchange gain				-
Tax losses charged to profit or loss				-
Post employment benefit obligation	1,362	2,480		3,842
Total deferred tax assets/(liabilities)	**(9,346)**	**(13,966)**	**-**	**(23,312)**

Deferred income tax assets/(liabilities):	At 1 July 2016 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2017 Birr'000
Property, plant and equipment	(12,982)	2,274	-	(10,708)
Post employment benefit obligation	2,750	(1,388)	-	1,362
Total deferred tax assets/(liabilities)	**(10,232)**	**886**	**-**	**(9,346)**

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		30 June 2021 Birr'000	30 June 2020 Birr'000
13	**Cash and balances with bank**		
	Cash in hand	3,580,289	2,841,296
	Deposits with local banks	1,890,885	1,344,681
	Deposits with foreign banks	1,046,260	-
		6,517,434	**4,185,977**
	Reserve with National Bank of Ethiopia	3,723,966	2,302,930
	Balance held with National Bank of Ethiopia	3,852,445	334,554
		14,093,845	**6,823,461**

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	10,369,879	4,520,531
Non-Current	3,723,966	2,302,930
	14,093,845	**6,823,461**

		30 June 2021 Birr'000	30 June 2020 Birr'000
13a	**Cash and cash equivalent**		
	Cash in hand	3,580,289	2,841,296
	Deposits with local banks	1,890,885	1,344,681
	Deposits with foreign banks	1,046,260	-
	Balance held with National Bank of Ethiopia	3,852,445	334,554
		10,369,879	**4,520,531**

		30 June 2021 Birr'000	30 June 2020 Birr'000
14	**Loans and advances to customers**		
	Agriculture	505,233	256,379
	Manufacturing	9,088,737	4,589,077
	Export	11,927,928	7,633,928
	Merchandise	1,453,053	874,042
	Import	1,930,830	1,538,344
	Domestic trade and service	17,728,655	12,439,299
	Building and construction	2,124,341	1,359,163
	Staff loans	1,928,373	1,489,216
	Gross amount	**46,687,150**	**30,179,448**
	- Stage 1 12 month ECL	(283,812)	(391,534.11)
	- Stage 2 Life time ECL	(1,652)	(1,843)
	- Stage 3 Life time ECL	(618,083)	(452,610)
	Net Conventional Loan Balance	**45,783,603**	**29,333,460**

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
within 3 Months	5,568,708	15,820,197.90
3 months up to 1 year	13,727,832	5,305,091.82
1 Year up to 2 years	4,982,770	1,802,900.57
2 Years up to 3 years	6,149,852	1,202,370.80
3 years up to 5 years	6,449,587	2,162,432.92
> 5 years	9,808,402	3,886,453.80
	46,687,150	**30,179,448**

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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 2021** **Birr'000**	**Charge for the year** **Birr'000**	**As at 1 July 2020** **Birr'000**
- Stage 1 12 month ECL	283,812	(107,722)	391,534
- Stage 2 Life time ECL	1,652	(191)	1,843
- Stage 3 Life time ECL	618,083	165,473	452,610
Total impairment allowance	**903,547**	**57,560**	**845,988**

	30 June 2021 **Birr'000**	**30 June 2020** **Birr'000**
15 **Interest free Financing**		
Agriculture -IFB	94,948	43,335
Manufacturing -IFB	2,418,513	1,223,723
Export -IFB	1,747,649	1,075,671
Import-IFB	143,362	43,143
Domestic trade and service -IFB	1,874,578	855,350
Building and construction -IFB	1,514,506	702,981
Others-IFB	22,674	5,722
	7,816,229	**3,949,926**

Maturity analysis	**30 June 2021** **Birr'000**	**30 June 2020** **Birr'000**
Within 3 Months	936,950	1,059,667.91
3 months up to 1 year	1,292,159	753,579.61
1 Year up to 2 years	1,125,362	410,475.39
2 Years up to 3 years	1,282,064	632,136.22
3 years up to 5 years	1,510,216	497,989.01
> 5 years	1,669,478	596,077.80

	30 June 2021 **Birr'000**	**30 June 2020** **Birr'000**
16 **Investment securities**		
Equity Investments	112,326	97,566
Additional for the year	500	-
Fair value gain	-	14,760
	112,826	**112,326**

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16a The following are the equity investments of the Bank as at 30 June 2021, 30 June 2020:

	Percentage holding	30 June 2021 Birr'000	30 June 2020 Birr'000
Oromia Insurance Company s.c	5.3%	48,495	48,495
Orologo Prefabricated Factory plc	20%	15,000	15,000
Gutu Oromia s.c.	17.7%	3,500	3,500
Elemtu Integrated Milk Industry	7.6%	(470)	(470)
Ethio Swich s.c.	2.7%	30,710	30,210
Premium Switch Solution(PSS)	3.2%	3,840	3,840
Bomoj Meat Industry s.c.	1.47%	1,250	1,250
TBO Printing and Publishing s.c	2.99%	10,500	10,500
		112,826	112,326

The Bank hold equity investments in Eth-switch of 2.7% (30 June 2021), Premium Switch Solutions 3.2% (30 June 2021), Oromia Insurance Company 5.3% (330 June 2021), Gutu Oromia Business 17.7% (30 June 2021), Orologo Prefabricated PLC 20% (30 June 2021), Elemutu Integrated Milk Industry 7.6% (30 June 2021), Bomoj Meat Processing and Export s.c 1.47% (30 June 2021) and TBO Printing and Publishing s.c 2.99% (30 June 2021). These investments are unquoted equity securities measured at cost.

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

17 **Amortized Cost:**

	30 June 2021 Birr'000	30 June 2020 Birr'000
Ethiopian Government Bills	8,945,473	8,953,375
Ethiopian Government Bonds	20,720	6,715
Gross amount	**8,966,193**	**8,960,090**

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	1,738,810	671,050
Non-Current	7,227,383	8,289,040
	8,966,193	**8,960,090**

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18 **Other assets**

	30 June 2021 Birr'000	30 June 2020 Birr'000
Financial assets		
Uncleared effects of transfers - Foreign	262,256	370,769
Uncleared effects of transfers - Local	8,794	176,161
ATM settlement receivables	24,063	23,047
Money transfer agents	12,044	7,046
Export settlement	-	257,424
Advance on murabaha	475,397	45,047
Account receivable	336,848	283,881
Gross amount	**1,119,402**	**1,163,375**
Less: Specific impairment allowance	(31,734)	(58,488)
	1,087,668	**1,104,887**
Non-financial assets		
Repossessed collateral	12,035	1
Fixed asset in store	117	117
Prepaid staff expense	497,796	244,625
Prepayment for new branch opening	55,127	12,609
Prepayments	260,502	231,190
Right-of-use assets	758,365	513,928
General supplies	93,394	60,143
	1,677,336	**1,062,613**
Gross amount	**2,765,004**	**2,167,500**

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	1,540,460	1,208,927
Non-Current	1,256,278	958,573
	2,796,738	**2,167,500**

18a **Impairment allowance on other assets**

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

	30 June 2021 Birr'000	30 June 2020 Birr'000
Balance at the beginning of the year	58,488	32,753
Charge for the year	(26,753.63)	25,735
Balance at the end of the year	**31,734**	**58,488**

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19	Intangible Assets	Purchased software Birr'000	Total Birr'000
	Cost:		
	As at 1 July 2019	**50,922**	**50,922**
	Acquisitions	5,321	5,321
	Internal development	-	-
	As at 30 June 2020	**56,244**	56,244
	As at 1 July 2020	56,244	56,244
	Acquisitions	57,762	57,762
	Internal development	-	-
	As at 30 June 2021	**114,005**	**114,005**
	Accumulated amortisation		
	As at 1 July 2019	16,157	**16,157**
	Amortisation for the year	6,938	6,938
	As at 30 June 2020	**23,095**	**23,095**
	As at 1 July 2020	23,095	**23,095**
	Amortisation for the year	8,410	8,410
	As at 30 June 2021	**31,505**	31,505
	Net book value		
	As at 30 June 2019	34,765	34,765
	As at 30 June 2020	33,148	33,148
	As at 30 June 2021	82,500	82,500

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		Building Birr'000	Motor vehicles Birr'000	Office furniture, fittings & equipment Birr'000	Computer equipment Birr'000	Construction in progress Birr'000	Total Birr'000
20	**Property, plant and equipment**						
	Cost:						
	As at 30 June 2019	**48,116**	**227,883**	**383,851**	**228,271**	**146,728**	**1,034,849**
	As at 1 July 2019	**48,116**	**227,883**	**383,851**	**228,271**	**146,728**	**1,034,849**
	Additions	4,717	56,495	66,908	36,892	100,806	265,818
	Disposals	-	(1,400)	(1,423)	(384)	-	(3,207)
	Reclassification	-	10,547	24,671	20,644	-	55,862
	Transfer to Non-Asset Held to Sale	-	-	(3,262)	(905)		(4,167)
	As at 30 June 2020	**52,833**	**293,525**	**470,745**	**284,518**	**247,534**	**1,349,155**
	As at 1 July 2020	**52,833**	**293,525**	**470,745**	**284,518**	**247,534**	**1,349,155**
	Additions	29,706	291,719	90,902	31,155	193,364	636,846
	Disposals	-	-			-	-
	Reclassification	-	10,547	28,106	27,860	-	66,513
	Transfer to Non-Asset Held to Sale	-	-	-	-		-
	As at 30 June 2021	**82,539**	**595,791**	**589,753**	**343,533**	**440,898**	**2,052,514**
	Accumulated depreciation						
	As at 30 June 2019	**2,568**	**66,118**	**116,649**	**86,784**	**-**	**272,119**
	As at 1 July 2019	**2,568**	**66,118**	**116,649**	**86,784**	**-**	**272,119**
	Charge for the year	960	21,801	41,380	29,964	-	94,105
	Disposals	-	(675)	(1,039)	(330)	-	(2,044)
	Transfer to Non-Asset Held to Sale	-	-	(1,981)	(746)		(2,728)
	As at 30 June 2020	**3,528**	**87,244**	**155,009**	**115,672**	**-**	**361,452**
	As at 1 July 2020	**3,528**	**87,244**	**155,009**	**115,672**	**-**	**361,452**
	Charge for the year	2,136	37,610	50,096	37,575	-	127,418
	Disposals	-	(6,662)	(4,505)	(375)	-	(11,542)
	Transfer to Non-Asset Held to Sale	-	-	(167)	(631)		(798)
	As at 30 June 2021	**5,664**	**118,192**	**200,433**	**152,241**	**-**	**476,530**
	Accumulated Impairment						
	As at 30 June 2019	**-**	**-**	**4,253**	**1,759**	**-**	**6,012**
	As at 1 July 2019	-	-	4,253	1,759	-	6,012
	Charge for the year			(4)			(4)
	Disposals	-	-	-	-	-	-
	Transfer to Non-Asset Held to Sale	-	-	(1,181)	(145)	-	(1,326)
	As at 30 June 2020	**-**	**-**	**3,068**	**1,614**	**-**	**4,683**
	As at 1 July 2020	-	-	3,068	1,614	-	4,683
	Charge for the year						-
	Disposals	-	-	-	-	-	-
	Transfer to Non-Asset Held to Sale	-	-	(180)	(248)	-	(428)
	As at 30 June 2021	**-**	**-**	**2,888**	**1,366**	**-**	**4,255**
	Net book value at						
	As at 30 June 2019	**45,548**	**161,765**	**262,949**	**139,728**	**146,728**	**756,717**
	As at 30 June 2020	**49,305**	**206,281**	**312,668**	**167,232**	**247,534**	**983,020**
	As at 30 June 2021	**76,875**	**477,599**	**386,251**	**189,677**	**440,898**	**1,571,729**

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20a Non-current assets held for sale

	30 June 2021 Birr'000	30 June 2020 Birr'000
Balance at the beginning of the year	125,553	109,779
Additional Repossessed collateral from the borrower for the year		
Transfer from repossessed collateral /Other Asset	26,808	15,660
Transfer from property, plant and equipment	-	4,167
ReversaL of property, plant and equipment	(8,130)	(4,053)
Disposals of property, plant and equipment	(34,585)	-
Fair value gain/(loss) on assets held for sale	-	-
Balance at the end of the year	**109,646**	**125,553**

Cooperative Bank of Oromia S.C. took over collateral of some customers and classified as non current asset held for sale as the Bank had no intention to make use of the property for administrative use. Management initiated a plan to dispose of these assets to willing buyers and expects to have completed the transaction before the end of the next financial period. There is no cumulative income or expenses in OCI relating to assets held for sale.

20b Right of use asset and financial lease liability

A Right -of use asset:	Building	Total
As at 30 June 2020	513,928.00	513,928.00
As at 1 July 2020	513,928.00	513,928.00
Depreciation charge for right-of-use assets	(249,830.53)	(249,830.53)
Additions	496,354.29	496,354.29
Change	(2,086.76)	(2,086.76)
Balance at June 2021	**758,365.00**	**758,365.00**

Right use of asset and financial lease liability
A Lease Liability

2020/2021	Building	Total
Balance 01 July 2020	**102,722.00**	**102,722.00**
Additions	32,148.69	32,148.69
Payment	22,239.29	22,239.29
Balance at June 2021	**112,631.40**	**112,631.40**

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		30 June 2021 Birr'000	30 June 2020 Birr'000
21	**Deposits from customers**		
	Demand deposits	20,963,328	12,064,018
	Savings deposits	32,696,125	22,747,992
	Time deposits	4,749,085	3,718,487
	Wadia demand deposits	2,394,378	921,320
	Wadia savings deposits	9,584,249	5,487,769
	Mobile money savings	2,863	3,081
		70,390,028	**44,942,668**

		30 June 2021 Birr'000	30 June 2020 Birr'000
22	**Due to other banks**		
	Demand deposits	432,260	300,239
	Saving deposits	296,117	267,975
	Time deposits	-	-
		728,376	**568,214**

		30 June 2021 Birr'000	30 June 2020 Birr'000
23	**Borrowing**		
	Borrowing from NBE	41,687	-
		41,687	**-**

		30 June 2021 Birr'000	30 June 2020 Birr'000
24	**Other liabilities**		
	Financial liabilities		
	Interest payable on deposits	1	-
	Letter of credit margin payables	1,567,019	755,928
	ATM settlement payable	37,389	28,502
	CTS Settlement account	462	676
	Dividend payables	22,789	34,849
	Blocked accounts	17,341	15,428
	Telegraphic and Money transfer payable	2	620
	Exchange payable	19,896	13,008
	Provision for fedility Risk	966	707
	Money transfer agent	10,357	6,721
	Cash payement order payable	126,906	196,948
	Board of directors remuneration payable	1,453	1,590
	Staff payables	322,348	230,504
	Advance from suppilers	-	- 3
	Cash collateral on gaurantees	922	348
	Lease liabilities	112,632	102,722
		2,240,483	**1,388,554**

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Blocked accounts represent customer accounts on which the court has given order to be frozen pending the end of litigation

Non-financial liabilities		
Defined contribution liabilities	5,650	3,014
Stamp duty charges	6,702	1,289
Withholding tax payable	4,835	2,515
Other tax payable	34,745	22,506
Deferred Income Loan Processing Fee	14,155	9,473
Deferred Income Guarantee Commission	78,835	39,682
Deferred Income LC Commission	72,119	31,092
Deferred Income- IFB	92	31
Sundry payables	67,992	49,042
	285,125	**158,644**
Gross amount	**2,525,608**	**1,547,198**

Maturity analysis	**30 June 2021 Birr'000**	**30 June 2020 Birr'000**
Current	1,066,210	1,066,210
Non-Current	1,459,398	480,988
	2,525,608	**1,547,198**

	30 June 2021 Birr'000	**30 June 2020 Birr'000**
25 **Retirement benefit obligations**		
Defined benefits liabilities:		
– Severance pay (note 25a)	93,983	52,927
Liability in the statement of financial position	**93,983**	**52,927**
Income statement charge included in personnel expenses:		
– Severance pay (note 25a)	15,095	13,996
Total defined benefit expenses	**15,095**	**13,996**
Remeasurements for:		
– Severance pay (note 25a)	(26,324)	8,699
	(26,324)	**8,699**

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 2021 Birr'000**	**30 June 2020 Birr'000**
Current	15,095	13,996
Non-Current	78,888	38,931
	93,983	**52,927**

25a 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 2021 Birr'000	30 June 2020 Birr'000
A	**Liability recognised in the financial position**	93,983	52,927

		30 June 2021 Birr'000	30 June 2020 Birr'000
B	**Amount recognised in the profit or loss**		
	Current service cost	6,682	7,801
	Interest cost	8,413	6,195
		15,095	**13,996**
C	**Amount recognised in other comprehensive income:**		
	Actuarial (Gains)/Losses on demographic assumptions		
	Actuarial (Gains)/Losses on economic assumptions	1,524.00	10,835.00
	Actuarial (Gains)/Losses on experience	(27,848.00)	(2,136.00)
		(26,324)	**8,699**

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 2021 Birr'000	30 June 2020 Birr'000
At the beginning of the year	52,927	47,630
Current service cost	6,682	7,801
Interest cost	8,413	6,195
Adjustment of previous year	(363)	-
Remeasurement (gains)/ losses	26,324	(8,699)
At the end of the year	**93,983**	**52,927**

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average	30 June 2021 Birr'000	30 June 2020 Birr'000
Discount Rate (p.a)	14.50%	14.20%
Long term salary increases	12.00%	12.00%

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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 age to 2.5% at age 45.

The sensitivity of the overall defined benefit liability to changes in the weighted principal assumption is:

	Change in assumption	Impact on defined benefit obligation 30 June 2021		Impact on defined benefit obligation 30 June 2020		
		Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000
Discount rate	1%	88,879	99,429	49,578	55,759	(891)

	Change in assumption	Impact on current service cost 30 June 2021		Impact on current service cost 30 June 2020		
		Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000
Salary increase	1%	99,504	88,724	55,759	49,578	(168)

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 statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

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		30 June 2021 Birr'000	30 June 2020 Birr'000
26	**Share capital**		
	Authorised:		
	Ordinary shares of Birr 100 each	13,000,000	3,000,000
	Issued and fully paid:		
	Ordinary shares of Birr 100 each	4,651,021	3,000,000

		30 June 2021 Birr'000	30 June 2020 Birr'000
26	**Share premium**		
	At the beginning of the year	8,672	8,672
	Addition during the year	-	-
		8,672	**8,672**

27 **Earnings per share**

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

	30 June 2021 Birr'000	30 June 2020 Birr'000
Profit attributable to shareholders	1,300,856	1,182,619
Weighted average number of ordinary shares in issue	32,346	25,134
Basic & diluted earnings per share (Birr)	40	47

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2020:nil,30 June 2019:nil, 30 June 2018: nil), hence the basic and diluted loss per share have the same value.

		30 June 2021 Birr'000	30 June 2020 Birr'000
28	**Retained earnings**		
	At the beginning of the year	793,223	334,524
	Profit/ (Loss) for the year	1,327,180	1,182,670
	Director's share of profit	(1,453)	(1,590)
	Transfer to Legal reserve	(331,795)	(295,667)
	Transfer to Risk reserve	(6,908)	(92,190)
	Transfer to Dividend Payable	(793,223)	(334,524)
	Reversal Severance Liability	363.00	-
	Transfer to Risk reserve(Severance)	(36,994)	-
	At the end of the year	**950,393**	**793,223**

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		30 June 2021 Birr'000	30 June 2020 Birr'000
29	**Legal reserve**		
	At the beginning of the year	912,017	616,350
	Transfer from profit or loss	331,795	295,667
	At the end of the year	**1,243,812**	**912,017**

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.

		30 June 2021 Birr'000	30 June 2020 Birr'000
30	**Risk reserve**		
	At the beginning of the year	393,033	277,384
	Transfer From Retained Earning	6,908	92,190
	Revaluation Gain-Equity Investment	-	14,760
	Other comprehensive income	10,670	8,699
	Reversal of Regulatory Risk reserve	(173,020)	-
	At the end of the year	**237,590**	**393,033**

		30 June 2021 Birr'000	30 June 2020 Birr'000
31	**Capital reserves**		
	At the beginning of the year	3,932	3,932
	Additional capital	-	-
		3,932	**3,932**

Capital reserve represents donation received from the Regional Government of Oromia without imposed restrictions on utilisation.

		Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
32	**Cash generated from operating activities**			
	Profit before income tax		**1,696,056**	**1,422,614**
	Adjustments for non-cash items:			
	Net gain/(loss) on foreign exchange			(536,233)
	Depreciation of property, plant and equipment	20	127,418	94,106
	Amortisation of intangible assets	19	8,410	6,939
	Net gain/Loss on disposal of property plant and equipment(net)	8	(12,896)	(1,246)
	Impairment on loans and receivables	14	53,584	153,458
	Reversal accumulated Impairment of PPE	14	429	
	Suspended Interest Income			(12,730)
	Dividend income		(7,694)	(314)
	Transfer of PPE to non current asset held for sale			(4,231)
	Retirement benefit obligations	25	15,095	13,996
	Changes in working capital:			
	-Decrease/(increase) in restricted cash	13	(1,421,036)	(437,930)
	-Decrease/ (Increase) in loans and advances	14	(16,507,701)	(8,020,277)
	-Decrease/ (Increase) in interest free banking	15	(3,866,303)	(1,747,674)
	-Decrease/ (Increase) in other assets	18	(570,750)	(456,782)
	Decrease/ (Increase) Non current asset held for sale	20a	(15,907)	620.30
	Decrease/Increase in Customers deposits	21	25,447,361	9,097,360
	-Decrease/Increase in Due to other banks	22	160,163	245,231
	-Increase/ (Decrease) in other liabilities	24	851,929	(606,116)
			5,958,158	**(789,209)**

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33 Related party transactions

CBO (S.C.) was registered commercially on October 29, 2004 in accordance with article 304 of Commercial Code of Ethiopia. It was established in line with proclamation no. 84/1994 with authorized capital of Birr 300 million. It started operation on 8th march 2005, with paid up share capital of birr 112 million. CBO is largely owned by cooperatives with primary cooperatives having 26.9%, cooperatives union 35.3%, cooperatives federation 3.5% and non-cooperatives; organizations and associations 7.9% and individuals 26.3%. The bank has entered into a number of transactions with related parties as at 30 June 2021.

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

	30 June 2021 Birr'000	30 June 2020 Birr'000
33a Transactions with related parties		
Loans and advances to key management	73,434	30,471
Cooperatives and union	4,835,626	3,872,283
	4,909,060	**3,902,754**

33b 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 2021.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Salaries and other short-term employee benefits	18,029	10,357
Sitting allowance	600	516
Other expenses	1,499	-
	20,128	**10,873**

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

33c Board of Directors compensation

Directors allowances represent monthly allowance of birr 10,000 per month and annual compensation of birr 150,000 per each member of board of directors of the bank.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Profit sharing	1,453	1,590
	1,453	**1,590**

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34 Contingent liabilities

34a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2021 is birr 80,130,641.42 (June 2020 Birr 73,397,372.93, 30 June 2019 birr 53,160,541 and 30 June 2018 birr 85,929,291 ,30). provision has been made in the financial statements as at 30 June 2021 is birr 1,635,000.00.

34b Contingent Assets

The Bank is a party to numerous legal actions initiated by the Bank against different organizations, current and former employees of the Bank and individuals arising from its normal business operations. The matter has been referred to the court and, having received legal advice, the directors believe that a favorable outcome is probable. The maximum amount expected from these cases as at June 30,2021 is birr 125,676,902.41 (June 2020 : Birr 125,426,652.24 ,June 30,2019 birr 125,202,516.32, and 30 June 2018 Birr 20,405,416). However, this has not been recognized as a receivable at the year end as receipt of the amount is dependent on the outcome of the court processes.

34c Guarantees and letters of credit

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 2021 Birr'000	30 June 2020 Birr'000
Guarantees issued	8,535,530	5,262,566
Letters of credit	2,008,110	1,627,508
	10,543,640	**10,292,009**

35 Commitments

The Bank has commitments, not provided for in these financial statements as of Birr 3.196 million 30 June 2021 (30 June 2020 3.401 million,30 June 2019:2.728 million) for undrawn overdrafts and loans approved but not yet disbursed.

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36 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 2021 Birr'000		30 June 2020 Birr'000	
	Right use of asset	Lease liabilities	Right use of asset	Lease liabilities
Within one year	77,154	3,599	21,622	1,918
After 1 year but within 2 years	53,952	4,786	49,635	3,989
After 2 years but within 5 years	531,088	88,390	371,193	79,007
After 5 years	96,172	15,856	71,477	17,808
Total	**758,365.38**	**112,631.40**	**513,927.57**	**102,722.54**

37 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 2021 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.