Bank of Oromia

ANNUAL REPORT 2021/22

CONSTANTLY CREATING UNIQUE VALUES TO CLIENTS!

www.coopbankoromia.com.et

PERFORMANCE **DASHBOARD**
FY 2021/22

ASSET
114.61 Billion
↑ 41%

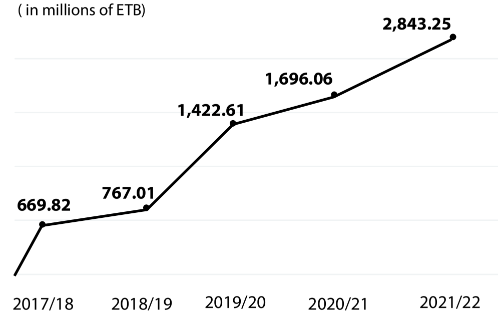
DEPOSIT ACCOUNTS
8.99M Accounts
↑ 18%

TOTAL CAPITAL
ETB 11. 31 Billion
↑ 59%

LOANS & ADVANCES
ETB 84.26 Billion
↑ 55%

EMPLOYEES
6,547
↑ 27%

GROSS PROFIT BEFORE TAX
(in millions of ETB)



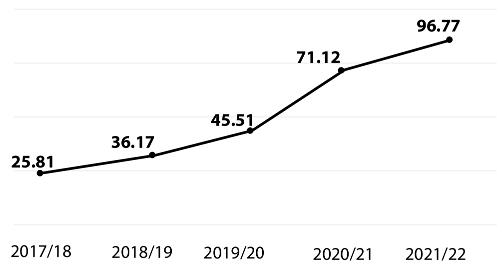
COOPAY E-BIRR MERCHANTS
46,827
↑ 159%

COOPAY E-BIRR SUBSCRIBERS
3.52 M
↑ 102%

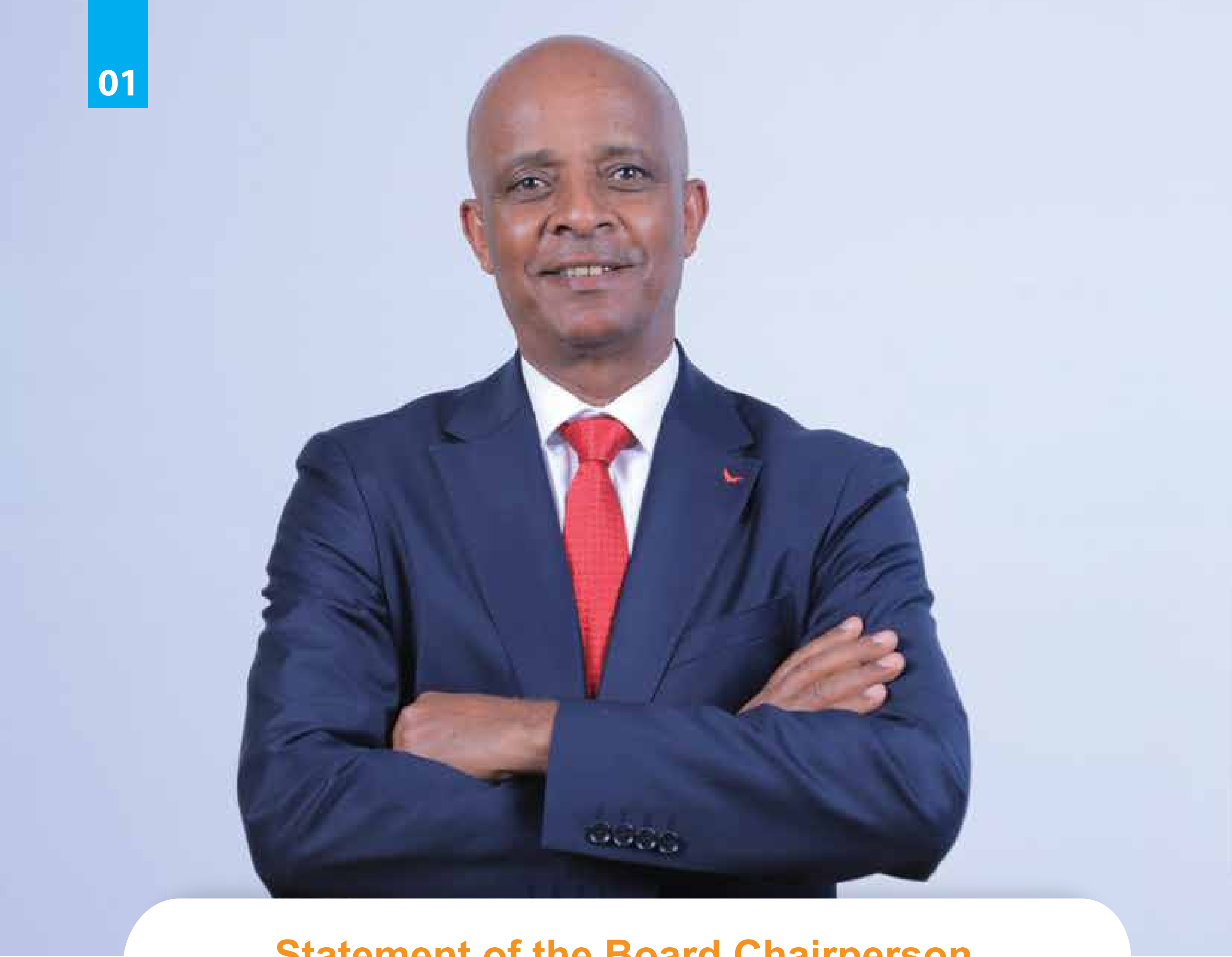
Debit Card Users
401,772

EARNING PER SHARE
34%

DEPOSITS
(in billions of ETB)



IN THIS REPORT



Statement of the Board Chairperson

Distinguished shareholders and stakeholders;

On behalf of the board of directors, I am pleased to make a remark and share the results of our operations for the fiscal year that ended June 30, 2022. During the year, despite the numerous external challenges and difficulties, we were able to deliver values to our stakeholders by demonstrating our resolve, resilience, and adaptability.

The world economy is expected to experience its sharpest decline following an initial rebound from global recession in more than 80 years. Global growth is projected to slow from 5.7 percent in 2021 to 2.9 percent in 2022 (World Bank Group, Global Economic Prospects, June 22). The report further highlights the major reasons for this decline including Russia – Ukraine war that created a significant disruption in trade, food supply and fuel prices. Especially for energy importing economies, it has tightened their financial conditions and constrained policy spaces, according to the IMF.

For Sub-Saharan African (SSA) region, though the economy has grown by 4.7 percent in 2021, it is expected to slow in 2022 to 3.6 percent, as a worldwide slowdown and a dramatic pickup in global inflation spill into a region already wearied by an ongoing series of shocks. Rising food and energy prices are striking at the region's most vulnerable, and macroeconomic imbalances are approaching levels not seen in decades (IMF, October 2022).

The macroeconomy has also been experiencing challenges of state of the global economy and the spillover effect of the Russia-Ukraine war, internal instabilities and conflicts. The Ethiopian economy was thus forecasted to have grown by 6 to 7 percent in 2021/22. Although it can be categorized as one of the challenging years, there were areas in the economic factors having shown fabulous outcomes. The country was able to secure more than USD 4.12 billion from export of goods and services, up by about 14 percent YoY. The deposit in the economy has also grown to reach a staggering ETB 1.7 trillion. With the country trying to digitize the economy, it is reported that about ETB 450 billion in electronic purchases transacted during the fiscal year.

...Statement of the Board Chairperson

It is with these milieus that we have yet achieved astounding success on every front. The bank has been able to stand strong and expand its capabilities by responding to the everchanging regulations and market conditions.

The bank's balance sheet increased by 40.94 percent in the fiscal year 2021/22 to reach ETB 114.61 billion. Liabilities show the biggest growth from this, at 39 percent. This brings the bank's liability to ETB 103.29 billion and its overall capital to an astounding ETB 11.31 billion.

During this fiscal year, the bank was able to collect additional deposits totaling ETB 25.65 billion. When compared to the previous year similar period, this is an increase of 36 percentage points. Accordingly, the bank's total deposit sum reached ETB 96.77 billion by the end of June 2022. Out of this total, Coopbank Alhuda, the bank's segment that caters to shariah-compliant clients, reached a deposit position of ETB 16.21 billion, maintaining its position as the leading private bank in the segment.

With additional injection of ETB 3.08 billion, paid-up capital of the bank reached ETB 7.73 billion by the close of the reporting period. The bank concluded the financial year with ETB 2.84 billion in profit before tax, a record achievement that exhibited a 67.63 percent rise compared to the preceding year. The sustainable performance of the bank in the past year, and in this fiscal year in particular has enabled amplified results for shareholders. Accordingly, Earnings per share (EPS) indicate a 34 percentage point, attributed to the significant growth of the bank's capital.

The implementation of the second year of the bank's growth strategy enabled the bank to seize the opportunities in the market that can be harnessed with a great zeal and team effort. As a strategy led organization, we have also managed to go further deep in to the society and increased our branch footprint. The bank opened 124 new branches on the fiscal year that concluded on June 30, 2022. This brings the bank's total number of branches to 593.

In terms of governance, the Board's function was as significant as ever in 2020–21. As a newly elected board of directors, we concentrated on finding ways to build on the achievements of the preceding boards to make sure the bank implemented governance and risk frameworks to effectively manage the challenging environment. The bank's board of directors remained dedicated throughout the fiscal year to enhancing the bank's governance practices through greater transparency, accountability, and responsibility.

"It is with these milieus that we have yet achieved astounding success on every front."

The Board of Directors in operation is newly elected one that had taken over in April 2022. The governance work of the bank during FY 2021/22 had thus been carried out in part by the outgone Board of Directors, and in part by the newly joined Board of Directors. During the 9 months of its last office term, the outgone BODs conducted 12 meetings (11 regular and 1 extraordinary). The newly joined BODs on the other hand conducted 4 regular meetings in the remaining period of the reporting period.

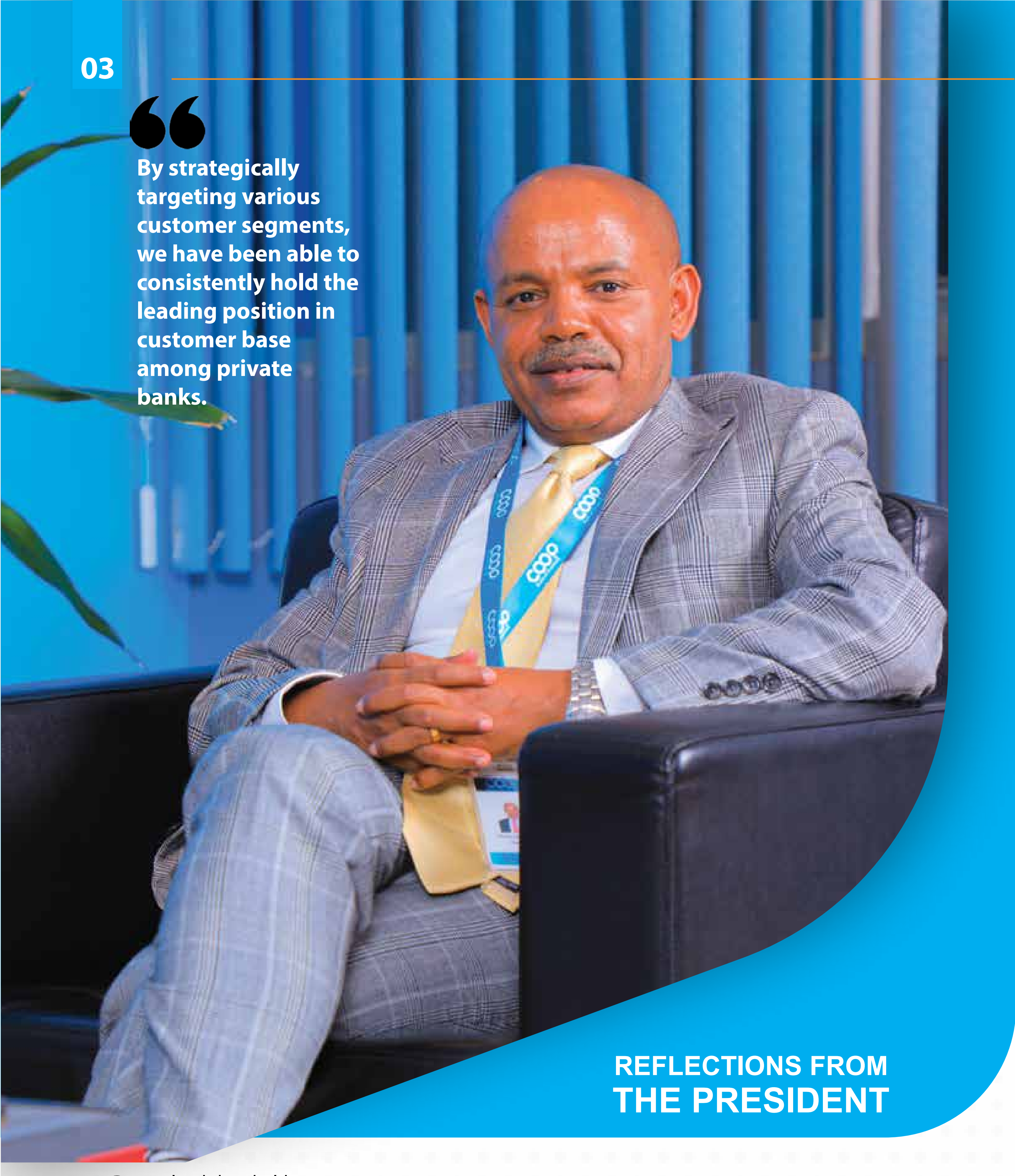
During the FY, the BODs made its utmost effort to discharge its governance roles (i.e. decision and oversight roles). To this effect, it had deliberated and gave direction on strategic and policy matters. Moreover, the Board of Directors conducted effectiveness self-assessment twice in the fiscal year with the aim to enhance its effectiveness in discharging the governance role entrusted to it.

Looking ahead, I believe the remarkable efforts the bank has made so far to assure sustainability will be able to bear fruit. As market volatility is predicted to rise and our environment to remain demanding, the bank should develop technological capabilities, strategic readiness and competent human capital that keeps pace with the latest developments in order to remain competitive.

Finally, I would like to take this opportunity to thank our stakeholders, particularly the bank's shareholders, for their ongoing support and trust on behalf of all my fellow board members. I would also like to commend the National Bank of Ethiopia and all of our partners for their invaluable guide and cooperation. We appreciate the bank's leadership and every employee for their ongoing commitment; and I sincerely believe that the board of directors, senior management, and employees will push the bank to a higher level of achievement in the coming years.

Thank you,

Fikru Deksisa (PhD)
Chairperson, Board of Directors



> By strategically targeting various customer segments, we have been able to consistently hold the leading position in customer base among private banks.

REFLECTIONS FROM THE PRESIDENT

Dear valued shareholders;
Led by a strategy crafted to seize opportunities in the market, the bank has set forth balanced measures that guarantee the bank's sustainability on all fronts. On top of that, in light of the enormous potential and wide acceptance of our brand within the community, again in this fiscal year, we set forth ambitious targets and registered phenomenal growth.

The fiscal year 2021/22 was a year where we hit a major milestone in terms of Asset formation. Our asset surpassed the ETB 100 billion milestone to reach ETB 114.61 billion at the end of June 30, 2022. Liabilities take a major share of this being ETB 103.29 billion and total capital reaching ETB 11.31 billion.

...REFLECTIONS FROM THE PRESIDENT

This year again, the bank was able to mobilize ETB 25.65 billion in deposits, which shows an increase of 36 percent from the position of last year's same period.

Despite the hurdles in collection of foreign currencies, the bank was able to obtain USD 438.28 million, a 27.4 percent increment from the last year. From the proceeds, about 69 percent of it came from the export revenues.

During the year, the bank made fresh loan disbursements of ETB 37.6 billion which expanded our loan book to ETB 84.26 billion, up by 54.6 percent from the preceding year. International trade accounts for the largest portion of this portfolio, followed by DTS, and manufacturing. Incredible progress has been made in financing Coopbank Alhuda customers. The bank is leading the market with a financing of ETB 13.51 billion in this arena. While significantly increasing our loans and advances, we have also improved the quality of our assets, bringing the NPL ratio down to 2.03 percent, a drop of 9 percentage points from the year before.

The bank had yet another outstanding accomplishment, generating ETB 12.05 billion in income for the fiscal year that concluded on June 30, 2022. Our income from interest was the major one with around 67 percent of it; the remaining came from fees, commissions, and other sources. On the other hand, the bank incurred a total expense totaling ETB 9.21 billion in interest expense, salaries and benefits as well as operating expenses during the fiscal year. Therefore, the profit before tax is a staggering ETB 2.84 billion, an increase of 67.63 percent from the balance of ETB 1.7 billion last year.

By strategically targeting various customer segments, we have been able to consistently hold the leading position in customer base among private banks. We have put unrelenting effort into becoming competitive in the field of digital banking as the future of banking is shifting to the digital realm. As a result, we were able to add 1.56 million new users to our Coopay Ebirr digital banking ecosystem throughout the fiscal year, bringing the total number of users to 3.52 million. Additionally, the bank was able to raise the number of its agents and merchants to 7,351 and 46,827, respectively, through consistent efforts.

This year, on the digital front, we were able to introduce Michu, a digital lending platform powered by Kifiya's Qena, with no requirement for collateral targeting micro, small and medium enterprises. The product is the first of its kind in the country, and we are setting the bar for more technologically advanced and financially accessible products that will challenge the current status quo and fundamentally alter our industry.

The work we have done to improve the capacity of our human capital is the other significant strategic imperative. A number of development programs have been put into place this year, and thorough gap analyses have been done to identify competency gaps so that they can be continually addressed. In addition, the bank's overall workforce expanded by 26.5 percent during the course of the fiscal year, reaching 6,547 employees.

We were also able to reiterate during the fiscal year that our efforts to assist our community in times of need are part of the bank's identity. The bank and its employees together donated ETB 70 million dispersed in kind to the drought victims when drought conditions worsened as a result of disparities in rain fall in different zones of the Oromia region. In addition, the bank gave the Somali regional government ETB 8 million to fight the natural disasters as a result of the drought's worsening conditions.

Considering the bank's DNA and foundation, we were more able than ever to collaborate with different stakeholders in the agricultural sector. Introducing Commoditized Collateral Financing (CCF), the bank was able to improve farmers' access to financing by allowing them to utilize agricultural products as collateral, which will be valuable to farmers who sell their produce at a loss to meet their immediate financial needs. In addition, the bank has made tremendous progress in supporting cooperatives and individual farmers.

Finally, I take this opportunity to express my sincere gratitude to our esteemed customers who have extended their engagement with Coopbank on behalf of myself and the entire team. I owe the Board of Directors a debt of gratitude for their unwavering commitment, strong leadership, guidance, and support. My heartfelt regards and appreciation also goes to our valued shareholders for their continuous support and to our employees for their tenacity, devotion, and unwavering commitment in the Bank's vision. My appreciation also goes to the National Bank of Ethiopia, for its guidance, continued support and cooperation.

Thank you,

Deribie Asfaw
President

BOARD OF DIRECTORS

Fikru Deksisa (PhD)
Chairperson, Board of Directors

Fekadu Dugasa
Deputy Chairperson

Amb Shiferaw Jarso
Board Director

Eshetu Wakene
Board Director

Girma Delessa
Board Director

Tadele Abdi
Board Director

Wegayehu Tsige
Board Director

Kebede Ejeta
Board Director

Muktar Adem
Board Director

Terefe Senbaba
Board Director

Debelo Jebesa
Board Director

Teshome Argeta
Company Secretariat

Deribie Asfaw
President

Aman Semir
VP, Technologies and Digital Banking

Ahmed Hassen
VP, Corporate Banking

Gadissa Mamo
VP, Banking Operations

Godana Kabato
VP, Interest Free Banking

Desalegn Tadesse
VP, Retail and MSMEs Banking

Gutema Dibaba
VP, Cooperative and Agricultural Banking

Giragn Garo
VP, Finance and Facilities Management

Liko Tolesa
VP, Human Capital and Projects Management

Tadele Tilahun
VP, Strategy and Marketing

Muluneh Aboye
Chief Risk & Compliance Management Officer

Tafesse Fana
Chief Internal Auditor

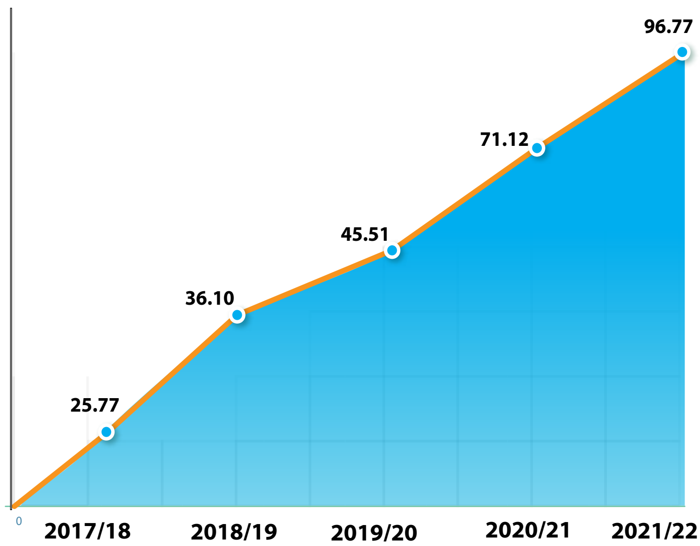
Deposits

Deposit is fundamentally a vital financial component that serves as one the key factors to banking business. As the deposit volume in the country's financial sector is registering a robust growth over the past recent years, we were also able to harness from the opportunity. Considering the impact it could have on the sustainable growth of the bank, we were able to mobilize a reasonable amount of resources by employing a wide range of strategic initiatives that involves reaching out to the unbanked community by broadening the access points and bolstering relationship with our existing customers by introducing products that add value to their businesses and lives, and recruiting the new ones.

We have made significant progress in incremental deposit mobilization with ETB 25.65 billion during fiscal year 2021/22. By the end of June 30th, 2022, the bank's aggregate deposit was at ETB 96.77 billion signifying a 36 percent increase over the previous year's deposit.

Classification wise, saving accounts generated more than 58.57 percent of the deposit position, followed by demand and fixed time, which contributed 33.88 percent and 7.54 percent, respectively.

Deposit Growth Trends
(in billions of ETB)



"Save for beautiful life" PLS Program Winners

Deposit Performance by Type
(in millions of ETB)

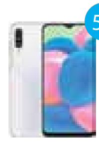
	2019/20	2020/21	2021/22
Demand	13,285.58	23,789.97	**32,791.88**
Saving	28,506.82	42,576.49	**56,678.31**
Fixed Time	3,718.52	4,751.95	**7,298.93**
Total	**45,510.92**	**71,118.77**	**96,769.12**

1st
1 Two bedrooms apartment in the capital city

2nd
1 Suzuki Dzire Automobile, 2021 model

3rd
2 Three wheel drive vehicle

4th
30 32 Inch smart television



5th
65 Smart phones

"Save for beautiful life" PLS Prizes

International Trade

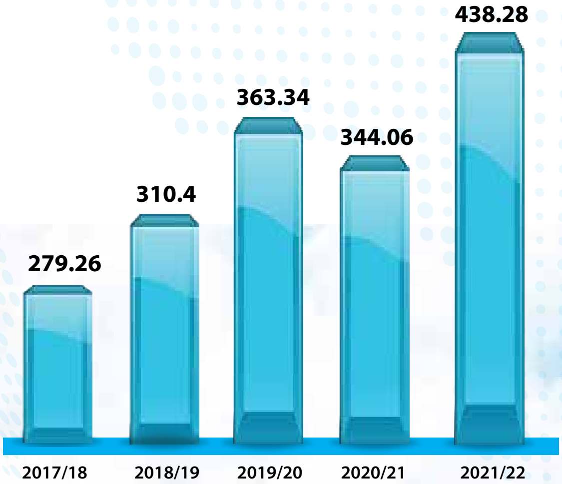
International trade is and has always been a major area of emphasis for the bank, as it defines the amount of the bank's incoming foreign currency. The fiscal year had a significant impact on international companies due to the ongoing Russia-Ukraine war, the post-COVID-19 pandemic epidemic, and other challenges. Despite unexpected difficulties, the country's export industry improved, which in turn helped the bank's foreign currency inflow. Our overall foreign currency earnings for the fiscal year were USD 438.28 million, an increase of USD 94 million from the previous fiscal year. Exports contributed 68.85 percent of total foreign exchange inflows, followed by SWIFT which held 25.9 percent of the forex generated.

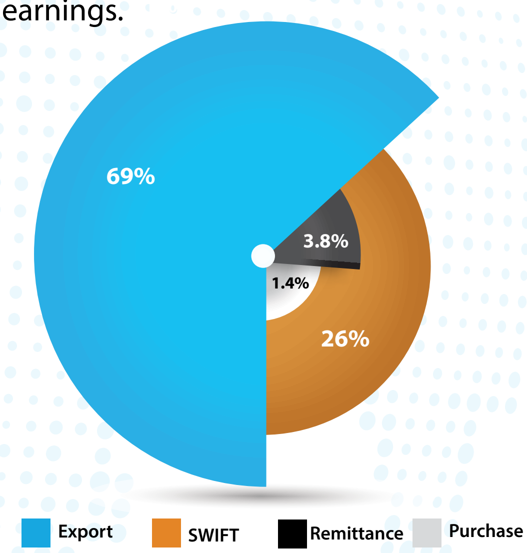
The bank has used the foreign currency earned to successfully conduct various international business transactions.

The vast majority, 73.4 percent, of foreign currency payments were made to facilitate import LC, followed by CAD (8 percent), and the remaining 17.6 percent was allocated to facilitate outgoing TT and other operational purposes.

This suggests that in order to capture a fair share of the market, we should further solidify our ties with important stakeholders who have the potential and consistency to fuel international trade and generate foreign exchange earnings. We should also implement new, practical initiatives to strategically increase the bank's foreign exchange earnings.

Trend of Foreign Currency Mobilized
(in millions of USD)





Share of Foreign Currency Earnings by Sources

Loans and Advances

The bank has injected new loans and funds into the economy to help the business community meet their financial goals, thereby fueling macroeconomic activities. As a result, additional loans totaling ETB 37.61 billion were disbursed during the reporting period to empower a variety of economic sectors. On June 30, 2022, our total loan book stood at ETB 84.26 billion, representing a 55 percent growth rate.

The majority of the loan portfolio, 32.43 percent of our total loans and advances, was used to facilitate international trade. Subsequently, domestic trade and services accounts for 25.87 percent, followed by manufacturing which account for 19.58 percent of our loan portfolio.

On the other hand, the bank has done a decent job in loan collections with an aggregate collection of ETB 19.16 billion exhibiting a growth of 29 percent from the preceding budget year.

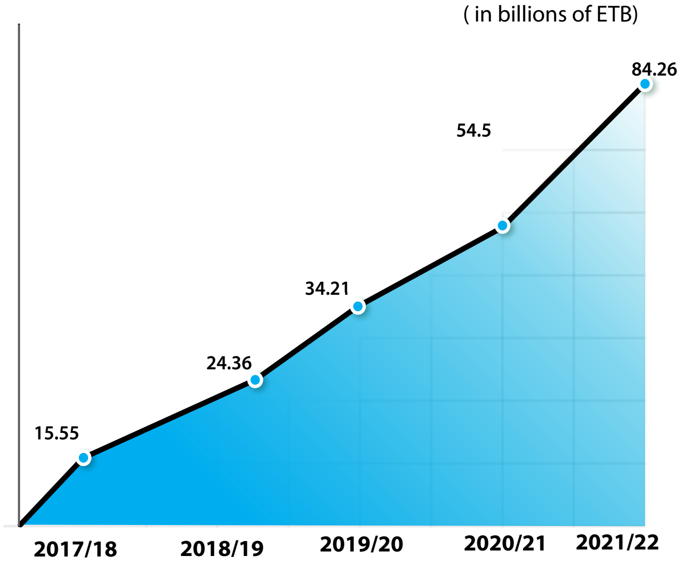
With regards to an emphasis given to asset quality management, our NPL ratio was maintained at 2.03 percent as of June 30, 2022, which was better than our previous year ratio of 2.22 percent as well as the regulatory authorities' threshold of 5.0 percent. The decrease in the NPL ratio indicates the efforts we make to assure an increase in the quality of our asset.


Xiangbo Textile manufacturing PLC

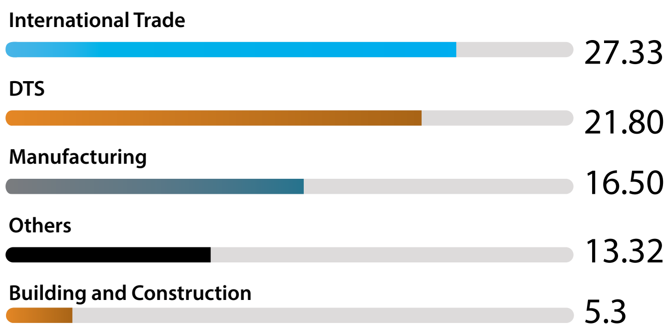

Kerchanshe Coffee


Waliso Road Project

Loans and Advances Trend
(in billions of ETB)



Outstanding Loans and Advances
(in billions of ETB)



Profit

As regards to the financial yield, we were able to achieve a year-on-year growth with the goal of securing an astounding profitability for our shareholders. Our shareholder's returns increase as income from banking operations increases and expenses carefully controlled despite an aggressive business expansions followed.

We have earned a total operating income of ETB 12.05 billion during the fiscal year under review, which was ETB 4.03 billion (50.25 percent) more than the previous fiscal year, owing primarily to an increase in the bank's loan portfolio. Continuing the trend over the years, interest income remained an important source driving the bank's earnings. It held 67 percent of the total revenue generated during the year with ETB 8.08 billion, up by 49.4 percent from the preceding fiscal year's ETB 5.41 billion. Income from other operating incomes which basically includes gain on forex transactions and income from Murabaha financings held 20 percent of the revenue generated in the year.

On account of expenses incurred, the total operating expenses of the bank stood at ETB 9.21 billion, which is higher by ETB 2.88 billion (45.59 percent) from the past fiscal year. Of the total expenses, interest expense accounts for 29.3 percent while personnel expense accounts for 25.19 percent, and the remaining 45 percent goes to general and other operating expenses.

Gross profit before tax

(in billions of ETB)

Key Ratios

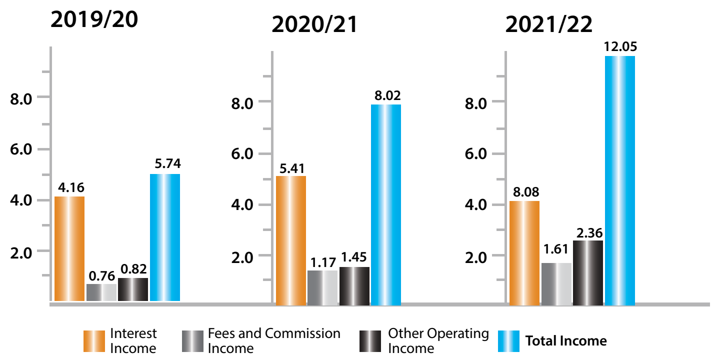
ROA	2.09%
ROE	22.22%
EPS	34.24%
NPL	2.03%

Other operating expenses which basically includes loss on forex dealings, rent and other administrative expenses has seen a substantial rise of 44% to reach ETB 3.34 billion. Personnel expenses (salaries and benefits book) has also shown major enlargement due to huge onboarding of employees for newly opened 124 branches and strengthening of existing ones. Interest expenses has increased by 33% from the prior year attributed to fair growth of the customers' deposits.

The net of income and expenses resulted in a gross profit before tax of ETB 2.84 billion at the end of June 30th, 2022, portraying a 67.63 percent increase from the previous fiscal year's 1.7 billion. Earnings per share (EPS) was 34 percent for the fiscal year ending June 30, 2022.

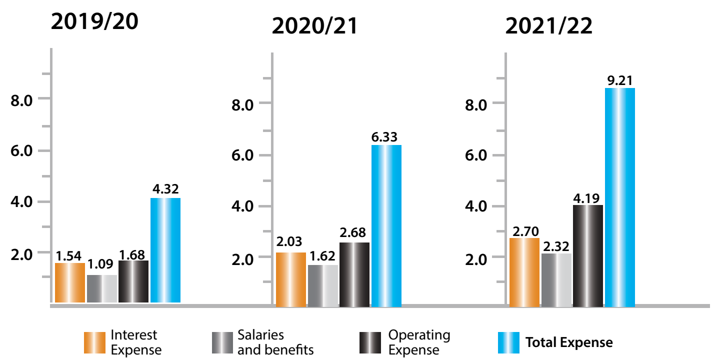
Income trend by category

(in billions of ETB)



Expense trend by category

(in billions of ETB)



Deposit Accounts

Driven by the mission of rooting our foundation in the communities, expanding customer base remains one of major strategic directions we consistently discharge. Moreover, the inadequate 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 the population that are marginalized from financial services, drives us to take various initiatives to go beyond the horizon and expand customer base.

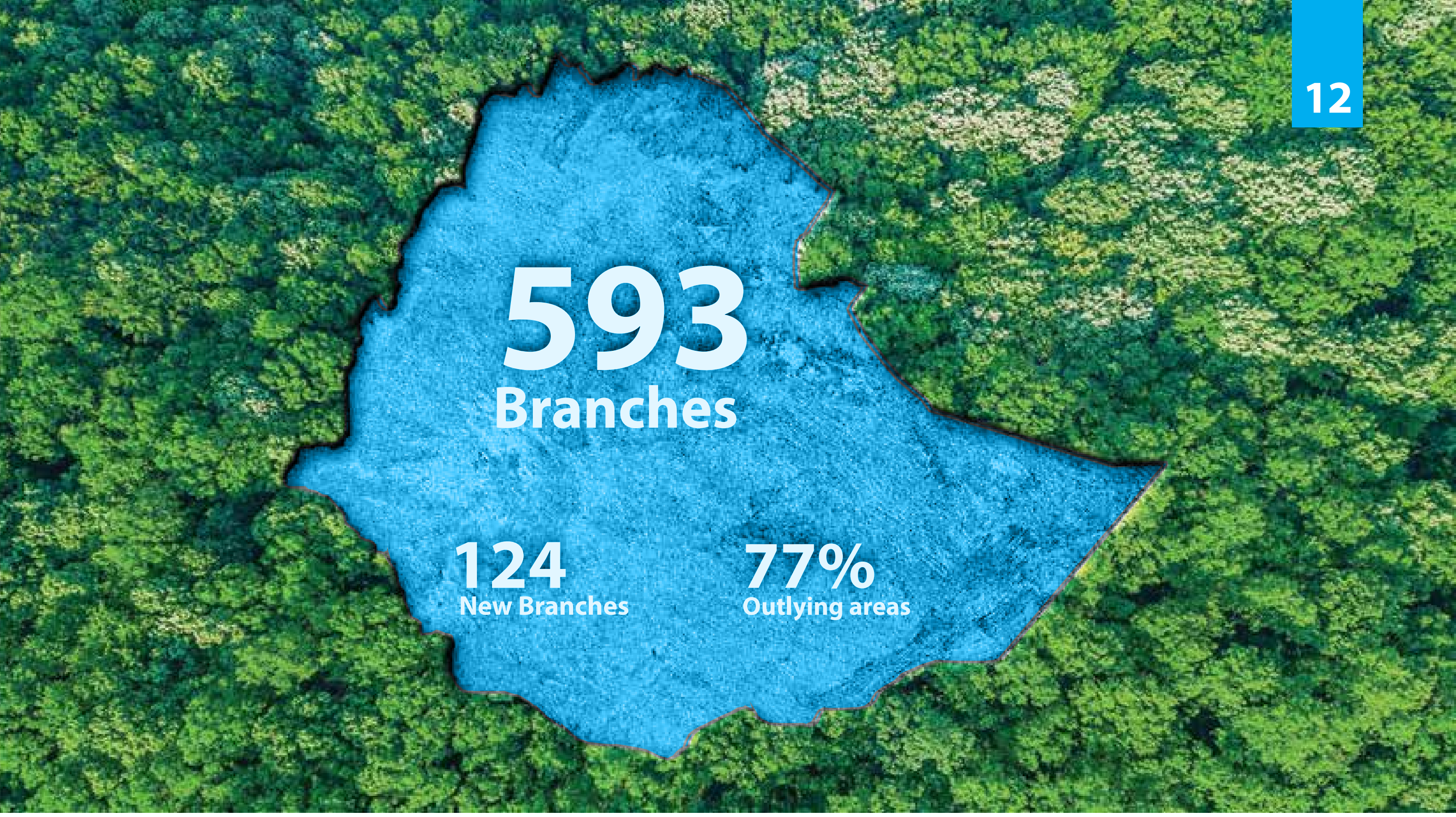
During the fiscal year, we have managed to recruit more than 1.35 million additional customers, exhibiting an expansion by 17.5 percent. As a result, the total deposit accounts reached 8.99 million by the end of June 2022. We maintained the leading position in total deposit customers among private banks.

As regards to the deposit account category, 74.51 percent (6.70 million) is conventional type and the remaining 25.49 percent (2.29 million) goes to Interest Free Banking category.

Given the strategic importance and the bank's mission to reach the unbanked masses, customer base expansion remains one of our strategic priorities, which we pursue through enabling digital initiatives, customer recruitment strategies, and the introduction of new products and services backed by various incentives.

Proudly Serving
8.99 Million Customers

New Accounts Opening for our Hardworking Farmers



Market Expansion

The expansion of digital platforms is believed to define the future of banking. Any organization, particularly a financial institution, that expands and diversifies its touch points in response to dynamism will eventually harvest an increasing return on its competitive edges. Even so, in a vast country like Ethiopia, where financial inclusion is minimal and bank-to-population ratios remains low, opening physical branches remains a major assignment for financial institutions.

In line with that, in tandem with raising awareness about the use of our digital services, we have expanded our presence in the capital city and other major potential cities, and the expansion of dedicated interest-free branches in potential areas has remained consistent.

The introduction of economically efficient, and physically accessible branches in areas with little or no access to banking services was one of the major initiatives undertaken during the fiscal year. Accordingly, during the fiscal year 2021/22, 124 new branches started operation, of which 15 branches are full-fledged IFB branches. Hence, our total branch network reached 593 by the end of June 30th, 2022.

In terms of location, about 77 percent (456) of our branches are in outlying areas, while 137 (23 percent) are city-centered branches in the capital. Hence, we maintained our legacy as the private bank with the most outlying/rural branches. This signifies that we are working to transform the rural communities by reaching out to the unbanked population, which is consistent with our philosophy and business purpose. The newly opened branches were able to mobilize a total deposit of ETB 3.02 billion during the fiscal year, demonstrating 11.78 percent contribution to the incremental

New branch: Gurmu

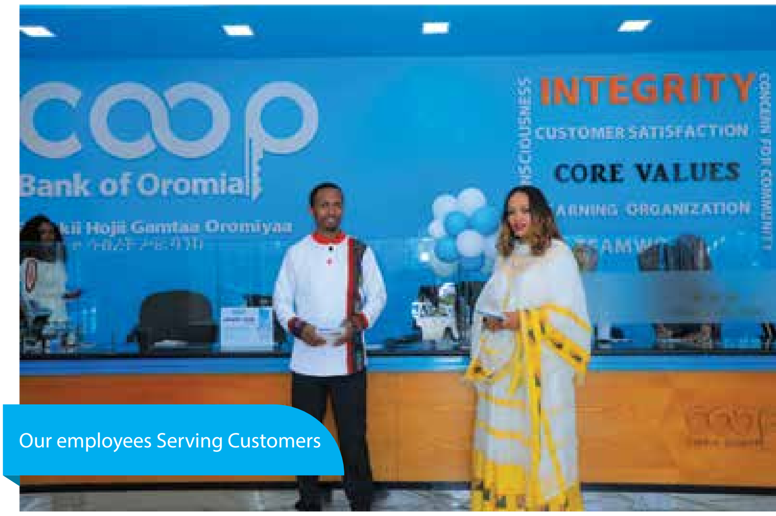
Our People

We believe that human capital equipped with the necessary skill sets, culture, adaptable to dynamic banking competition and technological advancement, and willing to go an extra mile is critical for sustainability of Coopbank. An organized set of trainings and exposures offered to existing and new employees at all levels is bearing fruit and it is expected to serve as a fuel for ongoing efforts to realize our vision.

The HCM strategy under implementation is intended to increase employee engagement at all levels and create an exemplary organizational culture by employing the necessary capacity building tools, merit-based rewards, and performance management practices. Furthermore, practices related to onboarding competent human capital for their next responsibility through succession planning are underway as the capacity of our human capital defines the quality of service we provide to our customers.

We had also executed other major key human capital management activities to enhance the availability, development, and effective utilization of our employees. Accordingly, during the fiscal year, we managed to recruit 1,743 new employees. This puts the total human resource strength of the bank at 6,547 as of June 30, 2022, which represents an increase of 27 percent from last budget year.

With regard to outsourced staff management, a total of 1,021 outsourced staff members joined the bank during the fiscal year, bringing the total number to 5,621. The increment is shown due to the newly opened branches in this period.



Our employees Serving Customers

In addition, the bank has provided various developmental and technical training to our employees in order to improve their competence and strategic awareness. Among the training and development areas that received attention during the fiscal year were leadership, digital banking and other operational areas.

During the upcoming periods, our HCM further solidifies its effort and go to fully implement the HCM strategy, which drives the effective achievement of our vision. In this regard, competence-based HCM will be further enhanced, an objective employee's performance framework will be introduced, and gap-based technical and developmental training will continue to be provided through a training center established for this purpose and dedicated internal trainers.


Induction to new employees

Other Strategic Achievements

In conformity with our mission, we strive to transform the livelihoods of our community by offering a variety of banking and advisory services. Thus, major strategic activities were completed during the reporting period to strengthen the business linkages between our cooperative societies and farmers. Agricultural value chain financing and Collateralized Commodity Financings were developed and launched; the deposit mobilized from farmers' savings accounts reached ETB 2.17 billion; a loan of ETB 351.93 million was disbursed to 182 farmers in the year; and four new cooperatives and seven farmers began export business.

Strategic partnerships were established, and Memorandums of Understanding were signed with various partners from various sectors of the economy in order to underpin transformation of our society with particular emphasis to MSMEs, cooperatives and agricultural sectors. Furthermore, training and awareness creation for thousands of cooperative members and individual farmers were undertaken to improve capacity building for cooperatives and farmers.

Corporate governance, implementation of AML/CFT to manage and mitigate risks, audits and special investigations activities were also carried out on a regular basis to improve the bank's corporate governance. Change workshops and various strategic awareness workshops were also held across the bank in order to create strategic understanding among leaders and employees of the bank.

During the reporting period, various construction and pre-construction activities were undertaken to support the bank's fixed asset formation. Construction of our transitional headquarters is coming to the end with major finishing works being performed though there were critical challenges arising from the international supply chain management process. The building at Waliso Town was also completed during the reporting period.

Moreover, pre-construction activities were carried out for commencing the construction of the Financial District Tower, a G+4B+44+2U tower, to be built around the National Theatre. Construction work has also begun in major towns such as Adama, Shashamane, and Harar. On top of that, one of the profound achievements of the fiscal year, around this theme was the acquisition of 11,000 m2 land in the capital Finfinne for construction of headquarters.

The first individual farmer receving his warehouse receipt

MoU Agreement with Ethio Engineering Group

Technologies and Digital Banking

In today's business operations, technology is a critical component that strengthens the bank's ability to deploy products and services in a more timely and flexible manner. As a result, we have continued to make significant IT investments in order to respond to the highly dynamic business environment. Many activities were carried out during the fiscal year to upgrade existing technologies and acquire new ones. To cope with the disruptions of digital technologies, we managed to start and run many critical IT and digital banking projects like SAP-ERP implementation, contact centers, and other strategic projects. Moreover, a digital transformation strategy has been drafted that shows the road map with respect to our aspiration towards digital banking. Moreover, the bank has launched Michu, the first ever uncollateralized digital lending product in Ethiopia. The product was made ready in partnership with Kifiya's Qena, and enables the bank to provide credit access to small businesses and MSMEs.

401,772

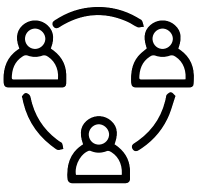
Total Debit card users

We have made digital transformation as one of the bank's strategic pillars by recognizing the digital dominance of future banking. A significant progress was made in improving the functionality of "Coopay-Ebirr" ecosystem; and we were able to integrate with 22 schools, 10 water utility entities, and 8 other organizations.

During the fiscal year, the operating model and organizational structure was redesigned for digital banking wing so as to proactively respond to the dynamic business environment. Furthermore, various awareness creation, training, and public campaigns were made to promote the functionality of the ecosystem.

With regard to Coopay-Ebirr's digital ecosystem performance during the fiscal year, 4,812 new agents, 24,619 new merchants, and 1.56 million new Coopy-Ebirr subscribers were recruited. This puts the total agents, and merchant subscribers of the bank at 7,351 and 46,827, respectively, while the bank's Coopay-Ebirr subscribers stood at a staggering 3.52 million at the end of June 2022. On the other hand, the total number of ATM card users has reached 401,772 at the end of June 2022.

In the coming year, we will continue to invest in upgrading our existing technological platforms and acquiring new cutting-edge technologies in order to respond to constantly changing customer preferences and to pave the way for the bank's digital transformation.



3.52 M

Coopy-ebirr Subscribers

7,351

Total Coopay Agents

46,827

Total Coopay Merchants

Our Brand and Corporate Social Responsibility

At Coopbank, we believe that the community is at the heart of our business model, and that as our society progresses and grows, so will our company. Furthermore, we believe that as a community bank, we are more in tune with the rhythm of their spirit. We are proud of how we cultivate relationships and use practical means to serve our communities. We have a clear vision of the future and are dedicated to making business decisions that benefit the society.

By far, we believe we have established an outstanding partnership with various humanitarian and nonprofit organizations engaged in relevant endeavors in order to enhance societal benefits and expand opportunities that inspire hope in the workforce.

As a result, we were able to respond to the situations and reach hundreds of thousands of people affected by drought and famine across the country. We were able to mobilize more than ETB 70 million, of which our staff members contributed more than 50 million to purchase grains, edible oils, and other supplies for drought-affected communities in East Bale, Guji, Borana, and East Hararghe zones as well contributed more than ETB 8 million to the Somali Regional State for citizens affected by similar adversity.

Apart from that, our staff directly delivered the items with compassion and consideration for the victims.

We have also sponsored a variety of cultural affairs, events, books and art works in the belief that they would elevate the culture, language, and art of the society. One of such events was a share capital donation made by our employees to the daughters of the late Hachalu Hundessa, iconic Oromo artist.

Throughout both fruitful and challenging times, we remained faithful to our community's demands and were able to empower several other socially responsible engagements and interact closely with the community.

In general, we have strengthened our firm mission of being a socially responsible corporate company that serves as a spark to societal advancement as well as a safeguard during such difficult times.

Finally, we will continue to support art and culture initiatives, environmentally responsible initiatives, critical humanitarian causes, and a wide range of socioeconomic goals.

Share capital donation made to Hachalu's daughters

CSR Program for Drought Affected Areas


DONATED BY
COOP
Bank of Oromia
CSB+
N.W. 25 KG
MFD: FAFFA FOOD SH.CO.
TEL. 0114421755
ISO 22000 - 2005
CERTIFIED COMPANY
ADDIS ABABA, ETHIOPIA


COOP

Coop
Bank of Oromia
MICHU
Uncollateralized Digital Lending
INTRODUCING
MICHU
UNCOLLATERALIZED LOAN
"I've never borrowed money from a bank. They need a guarantee or some kind of collateral. Michu, on the other hand, didn't need any of it. I realized that it would greatly benefit low-income merchants like myself."
www.coopbankoromia.com.et

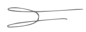
INTEREST FREE BANKING REPORT

Shaikh Salih Nur Ahmed
SAC CHAIRPERSON

Ustaz Kamil Shemsu Siraj
SAC DEPUTY CHAIRPERSON

Dr Mohammed Salih Jamal
SAC Member

Dr Jibril Qamar Adam
SAC Member



To the Shareholders, Customers and Other Stakeholders of Cooperative Bank of Oromia.

As part of the roles and responsibilities of the Shariah Advisory Committee ('the Committee') of Cooperative Bank of Oromia S.C ('the Bank') stipulated under the bank's Sharia Advisory Committee charter and Term of reference, we hereby submit our report for financial year ended June 30,2022.

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.

Accordingly, the committee dedicated its highest effort and time to oversee the banks Interest free banking business operation. During the period under the review, the committee has held successive regular and extraordinary meeting and reviewed the bank's IFB products, terms and conditions, IFB financing contracts in order to determine that the relevant sharia principles and rules are properly applied.

Among key developments and activities of the Committee, we have approved the Mudarabah deposits (Profit-Loss Sharing) and the profit allocated to customers which is estimated about ETB 25 million and we believe that such activities shall be encourages to attract prospective customers to the bank. We have also issued different fatwas (ruling) on all shari'ah related matters referred to us by the bank.

In addition, we have approved the penalty fund collected from late payment of Interest free banking Financing to be distributed to eligible recipients through legally registered charity organizations.

As regards to the operations, we have reviewed the IFB Financing contracts, gave sharia opinions on issues that requires sharia matters and visited IFB windows to check the operational correctness (segregations), on a sample basis.

In our Opinion,
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 2022 have been conducted in conformity with the Shari'ah principles. All the Products, Contracts, Terms and Conditions of Bank's Interest Free Banking Operations during the financial year ended June 30,2022 that we have reviewed are in compliance with the relevant sharia principles and rules.

Finally, the member of Sharia Advisory Committee of the bank would like to appreciate the dedication and commitment of bank's Board of Directors, Executive Management and Employees of the bank toward strengthening Shari'ah Compliance in the bank's Interest Free Banking business realm.

IFB Deposits

Coopbank Alhuda segment has registered a radical growth in deposit mobilization in the past years since it started operation back in 2015. During the past fiscal year, we have maintained outstanding performance in deposit mobilization through materializing our strong relationship with customers, extensive public awareness creation, branch networks, and digital channels, and diversifying Shariah compliant products and services.

An additional deposit of ETB 4.23 billion was mobilized, representing a 35.3 percent annual growth rate from the previous year's deposit position of the segment. Coopbank Alhuda's deposit position reached ETB 16.21 billion for the year ended June 30, 2022, accounting for 16.8 percent of the total deposits.

In terms of deposit types, the mobilized deposit during the fiscal year came from Wadia current, Wadia savings, Mudarabah savings, and Mudarabah investment accounts. Wadia savings account contributed 76 percent of the deposit, followed by Wadiah current and Mudarabah current. We have also launched Mudarabah Investment product this fiscal year to encourage customers to save and invest, and ultimately share profits.

IFB Deposit Performance
(in millions)

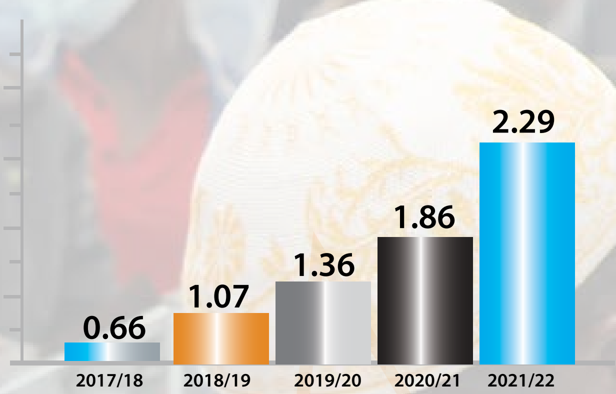
	2019/20	2020/21	2021/22
Wadia Current	921.32	2,394.38	3,282.68
Wadia Saving	5,477.77	9,429.27	12,755.10
Mudaraba Accounts	10.00	154.98	168.39
Sub-total	6,409.09	11,978.63	16,206.17

IFB Deposit Accounts

In order to assure our mission of rooting our foundation in financially excluded communities and to realize the country's financial inclusion strategy, we have kept up recruitment of new customers as a key focus area for this segment as well. Over half a million new customers were recruited this year, resulting in a 23 percent annual growth.

As of June 30, 2022, our total IFB deposit accounts stood at 2.29 million, placing it first among private banks in the country. The total IFB deposit account held about 24% of the total deposit accounts of the bank.

Trend of IFB Deposit Account
(in million)



2.29 Million

Total IFB deposit accounts

IFB Financing

Coopbank Alhuda segment is a market leader in providing huge amounts of financing to various economic sectors. The financing amount has increased by 102 percent on average over the last three years.

Compared to last year same time period, net financing increased by 66 percent during the reporting year. As a result, ETB 5.22 billion in new financing was invested in various sectors of the economy. The segment's total financing volume stood at ETB 13.511 billion at the end of 30, 2022, representing a 66 percent increase over the previous budget year.

As to the sectoral distribution of the financing, 31 percent and 24 percent went to international trade and manufacturing, respectively. On the other hand, the segment's non-performing financing (NPF) was only 0.63 percent due to a strong asset quality management practice.

Industry Leader in FINANCING Shariah Compliant BUSINESSES

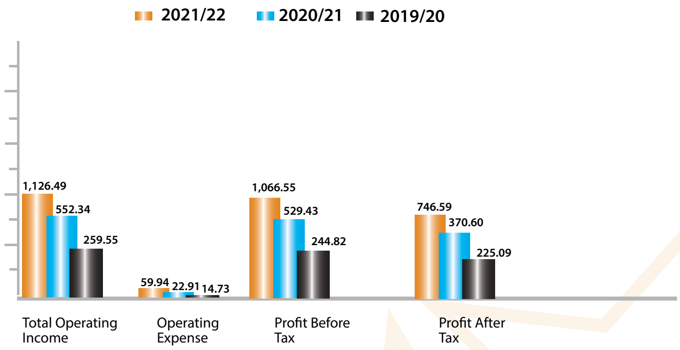
Dire Steel; Financed by Coopbank Alhuda

IFB Profit

This segment remained to be an important segment for the bank, and yet to be reinforced in terms of business volume and value propositions. The bank's asset on this segment (IFB) has reached ETB 17.12 billion, increasing from last year's ETB 11.59 billion. The segment's profit has therefore been steadily increasing as our operations and financing have tremendously expanded. Coopbank Alhuda earned ETB 1.126 billion in income during the reporting period, representing a 49 percent increase over the previous fiscal year. Income from Murabaha financing was the major source with ETB 955.12 million, which grew by 123 percent from the last year's ETB 426.71 million. Commission income generated from the Coopbank Alhuda has also increased by 36.4 percent to ETB 171.35 million.

IFB Profit Trend

(in millions of ETB)



IFB Market Expansion

With the ever-increasing demand from Sharia-compliant customers, we have kept on expanding our accessibility (dedicated branches model) beyond providing services through a window model. During the review period, by opening 15 new branches, the aggregate dedicated branches have reached 40 throughout the country. In the coming years, we will broaden our accessibility channels, putting customers' needs at the center of our business operations.

IFB Dedicated Branches

Abubeker Al-Siddiq
Al-Bukhari
Al-Nasir
Al-Rahma
Amal
Amana
Ansar
Arefa
Bereka
Bilal

Fajr
Fethi Masjid
Furqan
Garu Hira
General Wako Gutu
Halal
Hamza Masjid
Haramain
Hikma
Hilal

Imam Ahmed Masjid
Iman
Iqra
Kali
Makkat Al-Mukarrama
Marwa
Medinat Al-Munawera
Mina
Mufti Dawud
Nesiha

Nejashi
Nur
Omer Ibn Al-Khattab
Ramadan
Salahadin Ali-Ayub
Selam
Sheik Bekri Saphello
Sheikh Mohammed Reshad
Teqwa
Ummu-Ayman

AUDITED REPORT
2021/22

CONTENTS

Directors, professional advisers and registered office
For the year ended 30 June 2022

Company registration number
LBB/008/2004

Directors

Dr Fikru Deksisa	Chairperson	11-Mar-2019
Fikadu Dhugasa	Deputy chairperson	11-Mar-2019
Amb. Shiferaw Jarso	Director	22-Mar-2022
Girma Delessa	Director	22-Mar-2022
Kebede Ejeta	Director	22-Mar-2022
Terefe Senbaba	Director	22-Mar-2022
Wegayehu Tsige	Director	22-Mar-2022
Tadele Abdi	Director	22-Mar-2022
Muktar Adem	Director	22-Mar-2022
Eshetu Wakene	Director	22-Mar-2022
Debelo Jabesa	Director	22-Mar-2022
		27-May-2016

Executive Management

Deribie Asfaw	President	14-Dec-2015
Ahmed Hassen	VP, Corporate Banking	1-May-2016
Aman Semir	VP, Technologies and Digital Banking	1-May-2016
Gadissa Mamo	VP, Banking Operations	17-Sep-2018
Liko Tolessa	VP,Human Capital and Projects Mgt	27-May-2016
Desalegn Tadesse	VP, Retail and MSMEs Banking	1-May-2016
Tafesse Fana	Chief Internal Auditor	27-May-2016
Gutema Dibaba	VP, Cooperative and Agricultural Banking	1-Jan-2021
Godana Kabato	VP, Interest Free Banking	1-Jan-2021
Giragn Garo	VP, Finance and Facilities Management	28-Dec-2021
Muluneh Aboye	Chief Risk and Compliance Mgt Officer	16-Mar-2022
Tadele Tilahun	VP, Strategy and Marketing	16-May-2022

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

Corporate Registered Office
Cooperative Bank of Oromia S.C
Africa Avenue
Flamingo Get House Building
P.O Box 16936
E-Mail: coopbank@ethionet.et
Website: www.coopbankoromia.com.et
Addis Ababa, Ethiopia

Company Secretary
Obbo Teshome Argeta
Principal bankers
National Bank of Ethiopia

Correspondent Banks

Name	Address
Mashreq Bank PSC	New York, USA
Bank of China Limited	Beijing, China
Commerzbank AG	Frankfurt am Main, Germany
DZ BANK AG Deutsche	Frankfurt am Main, Germany
UniCredit SPA	Rome, Italy
Bank of Beirut SAL	Beirut, Lebanon
Bank of Beirut (UK) Ltd	London, United Kingdom
Aktif Yatirim Bankasi AS	Istanbul, Turkey
Bank of Africa-Mer Rouge	Istanbul, Turkey
CAC International Bank	Djibouti, Djibouti
East Africa Bank	Djibouti, Djibouti
Ecobank Kenya Limited	Nairobi, Kenya
Equity Bank. (Kenya) Limited	Nairobi, Kenya
Exim Bank (Djibouti). S A	Djibouti, Djibouti
KCB Bank Kenya Limited	Nairobi, Kenya
SALAAM African Bank	Djibouti, Djibouti

The Directors' Report

The Directors submit their report together with the financial statements for the period ended June 30, 2022 to the shareholders of Cooperative Bank of Oromia Share Company ("CBO or the Bank"). This report discloses the financial performance and the state of affairs of the Bank.

Incorporation and Address

Cooperative Bank of Oromia Share herein after may be called CBO or The Bank 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 Business 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 solutions 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 June 30, 2022 are set out on the statement of profit or loss and other comprehensive income. The profit for the year has been transferred to Retained Earnings, Legal Reserve and Risk Reserve. The summarized results are presented below.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Revenue (Interest Income, Commission and operating income)	12,053,249	8,022,003
Profit before tax	2,843,250	1,696,056
Income tax expense	(797,922)	(368,876)
Profit for the year	2,045,328	1,327,180
Other comprehensive income / (loss) net of taxes	38,035	(26,324)
Total comprehensive income / (loss) for the year	**2,083,362**	**1,300,856**

Dr Fikru Deksisa
Chairperson of the Board of Directors
20 September 2022

Statement of the Director's Responsibilities

The Bank's directors and/or management are 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 2021 the directives issued by the National Bank of Ethiopia and Internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Bank is required keep such records as are necessary to:

a) Exhibit clearly and correctly the state of its affairs;

b) Explain its transactions and financial position; and

c) Enable the Accounting and Audit Board of Ethiopia to determine whether the Bank has complied with the provisions of the financial reporting proclamation and directives issued for the implementation of the 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 for the reporting year.

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	**Ob. Deribie Asfaw**
Chairperson of the Board of Directors	President
20 September 2022	20 September 2022

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa COOP Bank of Oromia Cooperative Bank of Oromia

Report on the Audit of the financial statement

Opinion

We have audited the financial statements of the Cooperative Bank of Oromia Share Company specified on page 12-89, which comprise the statement of financial position as at June 30, 2022:

the statement of 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2022 and of its financial performance and 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, we do not provide a separate opinion on these matters.

As described in notes 14, 15 and 18 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 the 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 determine 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.

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 on the report of your Board of Directors so far as it relates to these financial statements in accordance with the 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, Ethiopia
20 September 2022

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa COOP Bank of Oromia Cooperative Bank of Oromia

Cooperative Bank of Oromia S.C

Financial Statements

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2022

	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
Interest income	5	8,083,608	5,410,166
Interest expense	6	(2,700,753)	(2,028,568)
Net interest income		**5,382,855**	**3,388,506**
Commission income	7	1,610,006	1,166,681
Commission expense	7	-	-
Net fees and commission income		**1,610,006**	**1,166,681**
Other operating income	8	2,359,636	1,445,157
Total operating income		**9,352,497**	**6,000,343**
Loan and other asset impairment	9	(631,367)	(228,040)
Impairment losses on PPE	9	(260)	-
Net operating income		**8,720,870**	**5,772,303**
Personnel expenses	10	(2,320,581)	(1,617,626)
Amortization of intangible assets	19	(18,047)	(8,410)
Depreciation of property, plant and equipment	20	(199,734)	(127,418)
Other operating expenses	11	(3,339,258)	(2,322,795)
Total Other Operating Expense		**(5,877,620)**	**(4,076,248)**
Profit before tax		**2,843,250**	**1,696,056**
Income tax expense	12a	**(797,922)**	**(368,876)**
Profit for the year		**2,045,328**	**1,327,180**
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Re-measurement gain/loss on retirement benefits obligations	25	(4,354)	(26,324)
Revaluation gain-equity investment	16	42,389	-
Net effect of gain/loss		38,035	(26,324)
Total comprehensive income for the period		**2,083,362**	**1,300,856**
Basic earnings per share (Birr)	28	34	40

The notes on pages [12] to [89] are an integral part of these financial statements.

Cooperative Bank of Oromia S.C

Financial Statements
Statement of financial position
As at 30 June 2022

	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
ASSETS			
Cash and balances with banks	13	16,488,220	14,093,845
Loans and advances to customers	14	69,336,114	45,783,603
Interest free Financing	15	13,362,820	7,816,229
Investment securities:			
▪ Financial asset at fair value through OCI	16	179,715	112,826
▪ Financial assets at Amortized cost	17	8,045,538	8,966,193
Other assets	18	2,780,254	2,006,639
Right-of-use assets	37	1,499,745	758,365
Intangible assets	19	238,820	82,500
Property, plant and equipment	20	2,468,182	1,571,729
Non-Current Asset Held For Sale	20a	125,176	109,646
Deferred Asset	12e	81,217	19,384
Total assets		**114,605,803**	**81,320,959**
LIABILITIES			
Deposits from customers	21	95,839,068	70,390,028
Due to other banks	22	929,933	728,376
Borrowing From NBE	23	-	41,687
Current tax liabilities	12c	773,825	396,833
Lease liabilities	37	294,552	112,632
Other liabilities	24	5,268,344	2,412,976
Retirement benefit obligation	25	124,679	93,983
Deferred tax liability	12f	63,382	49,023
Total liabilities		**103,293,782**	**74,225,539**
EQUITY			
Share capital	26	7,731,771	4,651,021
Share premium	27	8,672	8,672
Retained earnings	29	1,378,523	950,393
Legal reserve	30	1,755,144	1,243,812
Regulatory risk reserve	31	433,980	237,590
Donated capital	32	3,932	3,932
Total equity		**11,312,021**	**7,095,420**
Total liabilities and equity		**114,605,803**	**81,320,958**

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Cooperative Bank of Oromia

The notes on pages [12] to [89] 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, 2022 and were signed on its behalf by:

Dr Fikru Deksisa
Chairperson of the Board of Directors

Ob.Deribie Asfaw
President

Financial Statements
Statement of changes in equity
For the year ended 30 June 2022

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Legal reserve Birr'000	Donated capital Birr'000	R.Risk Reserve Birr'000	Total Birr'000
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							(173,020)	(173,020)
Transfer to RRR(severance				(10,670)			10,670	
Re-measurement gains/loss on defined benefit plans	25			(26,324)				(26,324)
Reversal of severance liabil				363				363
Total comprehensive income for the period		**3,000,000**	**8,672**	**2,076,864**	**912,017**	**3,932**	**237,590**	**6,239,075**
Issue of shares	26	1,651,021	-	-	-	-	-	1,651,021
Dividend Paid		-		(793,223)	-	-	-	(793,223)
Director's share of profit	24	-	-	(1,453)	-	-	-	(1,453)
Transfer to legal reserve		-	-	(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**
As at 01 July 2021		**4,651,021**	**8,672**	**950,393**	**1,243,812**	**3,932**	**237,590**	**7,095,420**
Profit for the period	28			2,045,328				2,045,328
Suspended Interest Income	5			(110,863)	-	-	110,863	-
Reversal of RRR(Loan provision)				(43,138)			43,138	-
Fair value gain-Equity investment	16						42,389	42,389
Total comprehensive income for the period		**4,651,021**	**8,672**	**2,841,720**	**1,243,812**	**3,932**	**433,980**	**9,183,137**
Issue of shares	26	3,080,750	-	-	-	-	-	3,080,750
Dividend Paid		-		(950,393)	-	-	-	(950,393)
Director's share of profit	24	-	-	(1,472)	-	-	-	(1,472)
Transfer to legal reserve		-	-	(511,332)	511,332	-	-	-
		3,080,750	**-**	**(1,463,197)**	**511,332**	**-**	**-**	**2,128,885**
As at 30 June 2022		**7,731,771**	**8,672**	**1,378,523**	**1,755,144**	**3,932**	**433,980**	**11,312,022**

The notes on pages [12] to [89] 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 2022

	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
Cash flows from operating activities			
Cash generated from operations	33	(808,358)	5,948,248
Dividend Paid		-	(793,223)
Directors allowance		(1,453)	(1,590)
Profit Tax Paid		(396,833)	(208,436)
Withholding tax paid		-	(570)
Net cash (outflow)/inflow from operating activities		**(1,206,644)**	**4,944,429**
Cash flows from investing activities			
Purchase/ collection of NBE bills and bonds		920,655	(6,102)
Purchase of equity investments	16	(25,000)	(500)
Purchase of property, plant and equipment	20	(866,720)	(703,359)
Proceeds from Disposal		18,843	34,585
Right-of-use assets	20a	(1,093,921)	
Purchase of Intangible Asset	19	(174,367)	(57,761)
Net cash (outflow)/inflow from investing activities		**(1,220,510)**	**(733,137)**
Cash flows from financing activities			
Payment of Lease liabilities		(46,376)	(1,961)
Proceeds from borrowings	23	(41,687)	41,687
Dividend Paid		(950,393)	-
Proceeds from issues of shares	26	3,080,750	1,651,021
Net cash (outflow)/inflow from financing activities		**2,042,293**	**1,690,747**
Net increase/(decrease) in cash and cash equivalents		**(384,861)**	**5,902,039**
Cash and cash equivalents at the beginning of the year	13a	10,369,880	4,520,536
Effects of exchange rate movement on cash and cash equivalents	7	(256,786)	(62,605)
Cash and cash equivalents at the end of the year		**9,728,232**	**10,359,970**

The notes on pages [12] to [89] are an integral part of these financial statements.

1. General Information

Cooperative Bank of Oromia SC ("CBO or the Bank") is a private commercial bank domiciled in Ethiopia. The Bank was established on 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's registered office is at Africa Avenue Flamingo, Get House Building, Addis Ababa, Ethiopia.

The Bank is principally engaged in providing banking solutions 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 June 30, 2022 (the Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee 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 the national regulations is included where appropriate.

The financial statements comprise;

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

2.2.1 Statement of compliance

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise their 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. Directors believe 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;

1. 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.
2. Assets held for sale - measured at fair value less cost of disposal; and
3. The liability for defined benefit obligations recognized at the present value of the defined benefit obligation less the fair value of the 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 bank has adequate resources to continue in operation for the foreseeable future. For this reason, the management continues 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

New standards, amendments and interpretations issued but not effected for the reporting period.

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022.

2.4 Foreign Currency Translation

2.4.1 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).

2.4.2 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. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

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

2.5 Recognition of Income and Expenses

The bank earns income from interest on loan and advances given to customers, service charges and commissions from customers, interest income from deposits with local and correspondent bank, investment in NBE (National Bank of Ethiopia) bills. Other income includes incomes like foreign currency transactions, dividend, rental and other miscellaneous incomes.

Interest income and expenses are recognized in the profit or loss to the extent that it is probable that the economic benefits will flow (outflow) to (from) the bank per the contractual terms and the income/expense can be reliably measured, regardless of when the receipt/payment is being made.

Commission and fees are measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

2.5.1 Interest Income and Expense

Interest income and expense are measured 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 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.

For all government bills, bonds and interest bearing financial assets measured at amortized cost interest income or expense is recorded using the Effective Interest Rate (EIR). 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 Income' for financial assets and 'Interest expense' for financial liabilities.

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 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 and deposits

Interest paid on borrowings and deposits are calculated on 365 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 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 Profit or Loss and it is further broken down into realized and unrealized portion.

The monetary assets and liabilities include financial assets within cash and cash equivalent and 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 asset 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. This election is made on an investment-by-investment basis.

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

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

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa Coop Bank of Oromia Cooperative Bank of Oromia

Business model assessment

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

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

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

Financial assets that are held for trading 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:

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa COOP Bank of Oromia Cooperative Bank of Oromia

- 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.

Derecognition of Financial assets

The bank shall derecognize a financial asset when:

- The contractual right to the cash flows from the financial asset expires, or
- It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred;
- Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

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

Impairment of financial assets

The impairment charge in the Profit or Loss Statement includes the change in expected credit losses and including those arising from fraud. Expected credit losses are recognized for loans and advances to customers, other financial assets held at amortized cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts.

Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the bank at the point of default after taking into account the value of any collateral held, repayments, or other mitigates of loss and including the impact of discounting using the effective interest rate.

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

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

- Financial assets that are debt instruments.
- Lease receivables.
- Financial guarantee contracts issued
- 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.

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

I. Measurement of ECL

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

- For financial assets that are not credit-impaired at the reporting date (stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the bank in accordance with the contract and the cash flows that the bank expects to receive).
- For financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows.
- For undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank, if the commitment is drawn down and the cash flows that the Bank expects to receive. and
- For financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

II. Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

III. Credit-impaired financial assets

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

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

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- 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-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more shall be considered credit-impaired even when the regulatory definition of default is different.

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

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

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the bank cannot identify the ECL on the loan commitment component separately from 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 the drawn component is presented as a provision; and
- For debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value; however, the loss allowance shall be disclosed and is recognized in the fair value reserve.

V. Write-off

Loans and debt securities shall be written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion there of. 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.

Tolesa, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa Cooperative Bank of Oromia

Recoveries of amounts previously written off shall be included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the bank's procedures for recovery of amounts due.

VI. Financial guarantees

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

Types of Letter of Guarantees issued by the bank: -

- Bid bond
- Suppliers' Credit Guarantee
- Advance Payment Guarantee
- Performance Bond
- Retention Guarantee
- Customs Duty Guarantee

Initial accounting for financial guarantees

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.

VII. Non-integral financial guarantee contracts

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

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

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

Collateral valuation

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

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

Repossessed collateral

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 re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the bank's policy.

2.6.2 Financial Liabilities

A. 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.

B. Subsequent measurement

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

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

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

C. 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 deposit, financing and investment products

Cooperative Bank of Oromia has started and operated interest free banking services since February 2015 focusing on deposits, financing as well as investment.

2.7.1 Interest Free Deposits

I. Wadiah Saving Account

Wadiah saving account is the account where the bank is authorized to keep the funds of the depositors in his or her or its safe custody for safety and convenience. The depositors are allowed to withdraw their money at any time without restriction. The bank, with the consent of customers, has the right to use the fund in any permissible businesses; however, the customer does not share profit or loss from business returns.

II. Wadiah Current Account

Wadiah current account is similar to the conventional current account, and it is a non-profit bearing account which is opened and operated by literate customers. The operation of the account can be performed through the use of Cheques provided by the Bank to Wadiah account holders. The bank can invest the collected deposits in permissible businesses and no return is paid out to customers on this account.

III. Labbaik Wadiah Saving Account

Labbaik Wadiah Saving Account is a type of forced and commitment saving account for Hajji & Umrah pilgrimage. The available tenure for the Umrah package ranges from one to three years and five to fifteen years for Hajji Package. Customers will have to monthly deposit in their account as per the proposed deposit plan.

IV. Gammee-Junior Wadiah Saving Account

Gammee Junior Wadiah saving account is a type of account designated for children (Junior) between 0-15. The account is opened in the children's name, but parent and/or guardians administer it until the child is old enough to operate the account by him/herself. This account shall be converted to an ordinary savings account when the account holder reaches 18.

V. Ordinary Mudarabah Account

Mudarabah is a form of partnership in profit/loss whereby one party or customer (Rab-al-maal) provides capital, and the bank (Mudarib) offers management, skill, or labor. The capital provider has granted the mudarib to undertake Shari'ah compliant business activities. Mudarabah can be in the form of a savings account or time deposit.

VI. Sinqe – Women Mudarabah Saving Account

Sinqe – Women Mudarabah accounts shall refer to a type of saving account specifically designed for women aged 30 and above. The main aim of accepting Sinqe – women Mudarabah is saving accounts is to increase the saving culture of the women.

VII. Dargago -Youth Mudarabah Saving Account

This account is designed for both male and female segments with the age of between 15 -29 years old, especially for the student. The bank, as an incentive, applies a better profit sharing ratio.

VIII. Gammee – Junior Mudarabah Saving Account

This account is opened by individuals, both male and female, between the age of 0-15. However, the account will be in the name of the child. The account will be administered by the parents/guardian until the child becomes able to do so. This account shall be converted to Ordinary Mudarabah Saving Account, when the account holder reaches the age of 18.

IX. Cooperatives Mudarabah Saving Account

Cooperatives Mudarabah saving account is opened by an autonomous association of individuals for mutual benefits to engage in retail, wholesale, production, manufacturing, etc. business enterprises. The bank allots a higher profit sharing ratio to cooperative Mudarabah saving account holders.

X. Labbaik Mudarabah Saving Account

Labbaik Mudarabah saving account is opened for Hajji and Umrah Pilgrimage; thus, the customer will share the profit as well as be forced to saving for the purpose. Customers will have to monthly deposit in their accounts as per the proposed deposit plan. Once the deposited amount reaches the proposed package amount, they can apply for withdrawal by filling the appropriate withdrawal format to credit Ethiopian Islamic Affairs account. The bank allots a higher profit sharing ratio with Labbaik Mudarabah saving account holders.

XI. Gudunfa Saving Account

Gudunfa is a type of Wadi'ah saving by the use of a designated box and deposits the accumulated fund into their account. Gudunfa box is provided by the bank, and dual control is in place; the box is mainly designed for petty traders, semi-skilled workers, shoe polishers, and other individuals working in private or public organizations. This account can be opened as Wadi'ah saving account.

XII. Mudarabah Investment/Time Deposit Accounts

Mudarabah investment deposits represent the case when the owner of funds seeks a return on their funds and are willing to spare these funds for an agreed period. Fixed-term deposits in the conventional system operate on the basis of Interest, while investment accounts in Islamic banks operate on the basis of profit-sharing, which is a straightforward Mudarabah deposit. The bank uses flexible tenure of (3, 6, 12 18, 24 or more months) with the option to withdraw forfeiting profits at specific times.

XIII. IFB Foreign Currency Deposit Products

Customers who fulfill the eligibility criteria can open foreign currency accounts in line with the requirements of the NBE in USD Dollar, Pound Sterling, and Euro currencies.

2.7.2 Interest-Free Financing Products

I. Murabahah Term Financing

A contract between buyer and seller under which the bank/seller sells certain specific goods to the customer/buyer at a sale price based on cost plus agreed profit payable in cash or on any fixed future date in a lump sum or by installments.

Tafesse, Shisema & Ayalew • TMS Plus • Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa • Coop Bank of Oromia • Cooperative Bank of Oromia

The agreed profit may be fixed in a lump sum or in a percentage of the cost price of the goods. All the expenses incurred by the seller in acquiring the goods are included in the cost price. Murabaha Term Financing is financing granted for working capital and/or for the acquisition of commercial and related purpose fixed assets to be repaid within a specific period of time with a profit. The bank extends Short-Term Murabaha Financing, Medium-Term Murabaha Financing, and Long Term Murabaha Financing.

II. Murabahah Revolving Financing

Murabaha Revolving Financing facility is a short or medium-term financing facility by which the customer may use the financing for the purchase of merchandise, raw materials, consumables, etc. to overcome the applicant's working capital constraint.

Murabaha Revolving Financing Facility shall be availed for a maximum period of one year and reviewed every year.

III. Murabahah Import Letter of Credit Financing

Murabaha Import Letter of Credit is a facility that the bank extends to applicants who engaged in the import business or other applicants who import for various purposes using the bank's funds, at zero percent margins paid, based on markup agreement.

Murabaha financing requires the bank and the customer/importer to sign at least two agreements separately, one for the purchase of the goods to be imported and the other for appointing the importer as the bank (agency agreement). Once these two agreements are signed, the importer can negotiate and finalize all terms and conditions with the exporter on behalf of the bank.

IV. Murabahah Pre-Shipment Export Financing

Murabaha pre-shipment export financing is a facility extended for the purchase of raw materials and/or exportable goods.

The selling price of the exportable item shall be within the acceptable range. It shall be confirmed by the National Bank of Ethiopia (NBE) or ECX (Ethiopian Commodity Exchange) or the concerned government organ.

Murabaha pre-shipment export financing against the sales contract can be one-time or revolving.

V. Murabaha Post Shipment/Revolving Export Financing

Murabaha Post Shipment (Revolving Export Facility) is an advance extended to exporters upon presenting acceptable export documents, except a bill of loading. The facility should be advanced against valid export documents.

The exporter/customer appoints the bank as his/her/its agent to collect the proceeds on his/her/its behalf.

VI. Murabaha Import Letter of Credit Settlement Financing

Murabaha Import Letter of Credit Settlement Financing is a form of financing extended to trade partners/debtors/borrowers by converting the outstanding import letter of credit document's value to a Murabaha term financing for a maximum period of one year when a customer is unable to clear the L/C documents due to shortage of working capital.

2.7.3 Investment Contracts

I. Musharakah Financing

Musharakah means a relationship established under a contract by the mutual consent of the parties for sharing of profit and losses arising from a joint enterprise or venture.

II. Mudarabah Financing

Mudarabah is a special kind of partnership where one partner gives money to another for investment in a commercial enterprise. The investment comes from the first partner (Rabb-ul-mal/bank), while the management and work is an exclusive responsibility of the other (Mudarib/customer).

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 Profit or Loss 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. Gain or Loss are determined by comparing the net proceeds from disposal with the carrying amount of the items.

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%
Computer and data storage	7	1%
Furniture & fittings	10-20	1%
Equipment	5-10	1%

The Bank commences depreciation when the asset is available for use. Capital work-in-progress is not depreciated as these assets are not yet available for use. Freehold land is not depreciated.

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. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in Profit or Loss 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 Profit or Loss.

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
- Intangibles-contract based------contract period

2.11 Non-Current Assets Held for sale

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

An impairment loss is recognized for any initial or subsequent write-down of the asset 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, 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 is recognized at the date of de-recognition.

Non-current assets 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.

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.

Tefesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

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:

I. Prepayments

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.

II. 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

The bank measures financial instruments classified as available –for-sale at fair value at each statement of financial position date. Fair value related disclosures financial instruments and non-financial assets that are measured at fair values are disclosed are, summarized in the following notes:

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa COOP Bank of Oromia Cooperative Bank of Oromia

- Disclosures for valuation methods, significant estimates and assumptions Note 3 and Note 4.6.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.6.1
- Financial instruments (including those carried at amortized cost) Note 4.6.1

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

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

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

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

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

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

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

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

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

- **Level 3** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

2.15 Employee Benefits

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

I. Defined Contribution Plan

The Bank operates two defined contribution plans;

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

II. Defined Benefit Plan

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.

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership
Baankii Hojii Gamtaa Oromiyaa COOP Bank of Oromia Cooperative Bank of Oromia

The current service cost of the defined benefit plan, recognized in the Profit or Loss 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. Post-service costs are recognized immediately in Profit or Loss.

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.

III. 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.

IV. Profit-sharing and Bonus plans

The bank recognizes a liability and an expense for bonuses and profit-sharing. The bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.16 Provisions

Provisions are recognized when the bank 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 recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

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

2.17 Share Capital

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

2.18 Earnings per Share

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

2.19 Government Grants

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

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

2.20 Leases

I. Bank as a Lessee

At commencement or on modification of a contract that contains a lease component, the bank allocates consideration on the contract to each lease component on the basis of its relative stand-alone price. However, for lease of branches and office premises the bank has elected not to separate non-lease components and accounts for lease and non-lease components as a single lease component.

The bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencements date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Bank's incremental borrowing rate.

The bank determines its incremental borrowing rate by analyzing its borrowing from various external source and make certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depends on an index or a rate, initially;
- Measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the bank is reasonably certain to exercise, lease payment in an optional renewal period of the bank is reasonably certain to extension option, and penalties for early termination of a lease unless the bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the bank's estimate of the amount expected to be payable under a residual value guarantee, if the bank changes its assessment of whether it will exercise a purchase, extension or termination option or is there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

II. Bank as a Lessor

At inception or on modification of a contract that contains a lease component, the bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the bank makes an overall assessment of the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The bank applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease. The bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

2.21 Income Taxation

1. 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.

2. Deferred tax

Deferred tax is recognized as 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 Statement of Financial Position 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.

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

Other disclosures relating to the bank's exposures to risks and uncertainties include:

- Capital Management Note 4.5
- Financial Risk Management and policies Note 4.1
- Sensitivity analysis disclosures Note 4.4.1

3.1 Judgements

In the process of applying the bank's accounting policies, the directors have made the 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

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 non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the bank'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 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(PD):** 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.

Telesse, Shiseema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa COOP Bank of Oromia Cooperative Bank of Oromia

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

IV. **Significant Increase in Credit Risk (SICR):** SICR is based on migration from stage 1 to stage 2. As per the bank's loan listing classification, these are loans that experience migration from "Pass" to "Special Mention" as a result of arrears of over 30 days past due.

3.2.2 Fair Value Measurement of Financial Instruments

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

3.2.3 Retirement Benefits

The bank has a comprehensive remuneration system based on 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, medical benefits for employees.

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.

The 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.

3.2.4 Depreciation and Carrying Value of Property, Plant and Equipment

The estimation of the useful lives of assets is based on director's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

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

3.2.5 Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the bank is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

3.2.6 Taxes

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

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

4. Financial Risk Management

4.1 Introduction

This note explains the bank's exposure to financial risks and how these risks could affect the bank's future financial performance. The bank has documented financial risk management policies. These policies set out the bank's overall business strategies and its risk management philosophy. The bank's overall financial risk management programme seeks to minimize potential adverse effects of financial performance of the bank.

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

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

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

4.1.1 Risk Management Structure

The board of directors have the ultimate responsibility for establishing and ensuring the effective functioning of the risk and compliance management activities of the bank.

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

The executive management is responsible for translating and implementing the bank's risk management strategy, priorities and policies as approved by the board of directors.

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

4.1.2 Risk Measurement and Reporting Systems

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

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

4.1.3 Risk Mitigation

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

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

4.2 Credit Risk

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

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

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

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

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

4.2.1 Management of Credit risk

In measuring credit risk of loans and receivables to various counterparties, the bank considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counterparty and its likely future developments, credit history of the obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out.

Our credit exposure comprises corporate 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.

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'.
- 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

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

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

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

The quantitative criteria 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+

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership
Baankii Hojii Gamtaa Oromiyaa Cooperative Bank of Oromia

II. Forward Transitions: Watch list & Restructure

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

III. Forward transitions: Classification

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

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

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

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

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

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

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

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

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

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

C. Credit Risk Grades

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

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data;

I. Term Loan Exposures

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

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

II. Overdraft Exposures

Payment record this includes:

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

D. Generating the term structure of PD

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

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

E. Determining whether credit risk has increased significantly

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

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

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

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

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

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

F. Definition of Default

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

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

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

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

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

G. Incorporation of Forward-Looking Information in the ECL Models

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

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

External information considered includes economic data and forecasts published by Fitch Solutions formerly known as Business Monitor International, an external and independent market intelligence and research institution. This is in addition to industry –level, semi – annual NPL trends across statistically comparable sectors.

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

The bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.
The key drivers for credit risk for each of the bank's economic sectors is summarized below:

Sector/Product	Macroeconomic factors				
Cluster 1 Agriculture Consumer Loans Overdraft Interest Free Financing	Goods exports, USD	Services imports, USD	-	-	-
Cluster 2 Domestic Trade Services Mining and Energy Transport Health Merchandise Financial Services	-	-	-	-	-
Cluster 3 Building and Construction Hotel and Tourism Manufacturing and ProductionIndustry Real Estate Housing and Construction	Goods importsUSD	Real GDP, LCU (2010 prices)	Real GDP, USD (2010 prices)	-	-
Cluster 4 ExportImport Advance against Import Bills International Trade	Goods importsUSD	Consumer price index inflation, 2010=100, eop	Real GDP, USD (2010 prices)	Current account balance, USD	Import cover months

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

The economic scenarios used included the following key indicators for Ethiopia:

Indicator	30-Jun-21	30-Jun-22	30-Jun-23
Consumer price index inflation, 2010=100, aver	447	585	335
Exports of goods and services, USD	7,062	7,949	4,312
Government domestic debt, LCU	1,029,705	1,311,530	741,300
LCU/USD, ave	39	48	26
Nominal GDP, LCU	3,761,684	4,841,072	2,766,563
Private final consumption, LCU	2,686,027	3,602,073	2,096,494
Total domestic demand, LCU	4,094,336	5,199,565	2,953,086
Savings, LCU	1,056,115	1,058,363	525,050
Population	116,419,908	119,344,463	60,406,349
Consumer price index inflation, 2010=100, eop	440	581	328
M1, LCU	398,990	463,645	244,950
M2, LCU	1,192,960	1,450,580	776,445
Current expenditure, LCU	285,099	396,721	237,925
Goods imports, USD	13,056	14,996	7,821
Goods exports, USD	3,626	4,022	2,023
Current account balance, USD	(3,353)	(4,482)	(2,489)
Import cover months	2	2	1
Total household spending, LCU	3,112,045	4,197,597	2,446,608
Nominal GDP, USD	95,669	100,847	53,483
Real GDP, LCU (2010 prices)	913,754,000,00	944,211,000,000	484,272,500,000
Real GDP, USD (2010 prices)	63,412,863,646	65,526,523,984	33,607,629,636
Real GDP per capita, USD (2010 prices)	545	549	278
Nominal GDP, USD (PPP)	285,914,796,233	315,978,796,495	169,280,154,928
Private final consumption, USD	68,171	74,903	40,529
Government final consumption, LCU	336,123	406,173	223,935
Government final consumption, USD	8,567	8,490	4,329
Exports of goods and services, LCU	278,927	382,338	223,026
Imports of goods and services, LCU	616,897	740,831	409,549
Imports of goods and services, USD	15,741	15,481	7,917
Total domestic demand, USD	104,195	108,379	57,089
Unemployment, % of labour force, aver	4	3	2
Real effective exchange rate index	60	27	10
LCU/USD, eop	44	52	27
Total revenue, LCU	296,550	363,207	204,726
Total revenue, USD	7,571	7,576	3,958
Total expenditure, LCU	398,379	523,143	307,089
Total expenditure, USD	10,153	10,869	5,937
Current expenditure, USD	7,242	8,225	4,600
Budget balance, LCU	(101,830)	(159,936)	(102,363)
Budget balance, USD	(2,582)	3,293)	(1,979)
Services imports, USD	5,530	5,858	3,032
Services exports, USD	4,730	5,202	2,704
Total reserves ex gold, USD	3,016	2,955	1,463
Total external debt stock, USD	31,859	35,573	18,896
Long-term external debt stock, USD	30,311	33,809	18,006
Public external debt stock, USD	30,311	33,809	18,006
Total government debt, USD	55,355	60,625	32,895
Total debt service, USD	**1,999**	**2,172**	**1,172**

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

The below scenario weightings have been observed:

Summary of scenario weightings

Scenario	Base	Downturn (downside)	Optimistic (upside)
Cluster 1	97%	3%	-
Cluster 2	94%	3%	3%
Cluster 3	91%	4.50%	4.50%
Cluster 4	94%	3%	2%

H. Modified Financial Assets

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

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

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

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

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

For financial assets modified as part of the bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action.

As part of this process, the bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

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

I. Measurement of ECL

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

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

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

However, for overdrafts that include both a loan and an undrawn commitment component, the bank measures ECL over a period longer than the maximum contractual period if the bank's contractual ability to demand repayment and cancel the undrawn commitment doe s not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis.

The bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

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

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

J. Loss Allowance

The following tables show reconciliations of loans and advances to customers at amortized cost (on balance sheet exposures) as of June 30, 2022

In Birr'000	2022			
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	**283,792**	**1,652**	**617,694**	**903,138**
Transfer to stage 1 (12 months ECL)	138,417	(671)	(137,746)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	(2,068)	4,520	(2,452)	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(1,475)	1,734	(259)	-
Net re-measurement of loss allowance	(66,639)	(1,194)	270,139	202,306
New financial assets originated or purchased	170,010	39,077	28,568	237,656

Financial assets derecognized	(44,362)	(452)	(30,788)	(75,602)
Balance as at 30 June 2022	**477,675**	**44,666**	**745,157**	**1,267,498**

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 2020	**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)	0.00
Net re-measurement of loss allowance	(124,826)	(1,914)	204,099	77,359
New financial assets originated or purchased	98,733	498	1,521	100,752
Financial assets derecognized	(80,073)	(759)	(39,900)	(120,732)
Balance as at 30 June 2021	**283,792**	**1,652**	**617,694**	**903,138**

In Birr'000	**2022**			
Emergency Overdraft Letter of Credit and financial guarantee contracts (off balance sheet exposures)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 July 2021	**648.27**	**-**	**389.00**	**1,037.27**
Transfer to stage 1 (12 months ECL)	18		(18)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(0)	-	0	-
Net re-measurement of loss allowance	(16)	-	841	825
New financial assets originated or purchased	432.11	-	31	463
Financial assets derecognized	(630)		(91)	(721)
Balance as at 30 June 2022	**451.50**	**-**	**1,153**	**1,604**

The following table provides a reconciliation for June 30, 2022 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	**2022**			
Other financial assets (debt instruments)	Cash and balances with banks	Investment securities (debt instruments)	Other receivables and financial assets	Total
Balance as at 1 July 2021	**525.68**	**448.31**	**30,759.91**	**32,143.25**
Net remeasurement of loss allowance	67.34	(46.03)	190,867.52	190,888.83
New financial assets originated or purchased	-	-	-	-
Balance as at 30 June 2022	**593.02**	**402.28**	**221,627.43**	**223,032.07**

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

In Birr'000	Loans and advances to customers at amortized cost	Investment securities (debt instruments)	Other financial assets	Total charge/(credit)
Net remeasurement of loss allowance	202,306	(46.03)	192,585	394,845
New financial assets originated or purchased	237,656	-	-	237,656
Financial assets derecognized	(75,602)	-	-	(75,602)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Balance as at 30 June 2022	**364,360**	**(46)**	**192,585**	**556,899**

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	2022				2021
Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1 – Pass	80,639,320	-	-	80,639,320	53,192,712
Stage 2 – Special mention	-	1,643,031	-	1,643,031	177,675
Stage 3 - Non performing	-	-	1,703,685	1,703,685	1,211,007
Total gross exposure	**80,639,320**	**1,643,031**	**1,703,685**	**83,986,035**	**54,581,394**
Loss allowance	(477,675)	(44,666)	(745,157)	(1,267,498)	(903,138)
Net carrying amount	**80,161,645**	**1,598,364**	**958,528**	**82,718,537**	**53,678,256**
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	(283,792)	(1,652)	(617,694)	(903,138)	(820,336)
Net carrying amount	**52,908,920**	**176,023**	**593,313**	**53,678,256**	**31,116,195**

In Birr'000	2022				2021
Emergency Overdraft , Letter of Credit and financial guarantee contracts	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1 – Pass	2,941,623	-	11,526	2,953,149	4,926,904
Stage 2 – Special mention	-	-	-	-	
Stage 3 - Non performing	-	-	-	-	
Total gross exposure	**2,476,368**	**-**	**11,526**	**2,487,894**	**4,926,904**
Loss allowance	(527)	-	(1,153)	(1,679)	(1,138)
Net carrying amount	**2,475,841**	**-**	**10,374**	**2,486,215**	**4,925,766**

In Birr'000		2022		
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	11,860,396	(593)	11,859,803
Investment securities (debt instruments)	12 Month ECL	8,045,564	(402)	8,045,161
Other receivables and financial assets	12 Month ECL	1,515,439	(222,037)	1,293,402
Emergency staff loans		526,992	(1,178)	525,814
Totals		**21,948,390**	**(224,210)**	**21,724,180**

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	12 Month 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**

4.2.5 Credit Concentrations

The bank monitors concentrations of credit risk by social sector. An analysis of concentrations of credit risk at June 30, 2022, and June 30, 2021. The bank concentrates all its financial assets in Ethiopia.

	Public Enterprise	**Cooperative**	**Private**	**Others**
30 June 2022	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Cash and balances with banks	16,488,220	-	-	-
Loans and advances to customers	15,331,892	7,897,041	61,026,935	-
Investment securities:				
Financial asset at FVOCI		-	179,715	-
Financial assets at Amortized cost	8,045,538	-	-	-
Other assets:		-	1,323,892	-
	39,865,650	**7,897,041**	**62,530,543**	-
	Public Enterprise	**Cooperative**	**Private**	**Others**
30 June 2021	**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 FVOCI	112,826	-	-	-
Financial assets at Amortized cost	8,966,193	-	-	-
Other assets:	2,006,639	-	-	-
	33,860,993	**4,835,626**	**41,747,893**	-

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 2022	30 June 2021	30 June 2020
	Birr'000	Birr'000	Birr'000
Loan commitments	4,256,624	3,196,000	3,401,936
Guarantees	933,243	8,535,530	5,262,566
Letters of credit	1,492,914	2,008,110	1,627,508
	6,682,781	**13,739,640**	**10,292,009**

4.3 Liquidity Risk

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

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

4.3.1 Management of Liquidity Risk

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

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

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

4.3.2 Maturity Analysis of Financial Liabilities

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

	30 days	31 90 days	180 days	365 day	Over 1 year
30 June 2022	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Deposits from cust.	32,600,303	-	7,130,454.86	-	56,108,310.29
Due to other banks	929,933	-	-	-	-
Other liabilities	1,773,938	35,082.00	-	-	462,373.00
Total F/Liabilities	**35,304,174**	**35,082.00**	**7,130,454.86**	**-**	**56,570,683.29**
Loan commitments	4,256,624	-		-	-
Guarantees		247,731	624,282	2,580.83	58,649.24
Letters of credit	154,581	902,749	435,583	-	-
Total Off Bal.sheet	**4,411,205**	**1,150,480**	**1,059,865**	**2,581**	**58,649**
	30 days	**90 days**	**180 days**	**365 day**	**Over 1 year**
30 June 2021	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Deposits from cust.	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	-	-	326,221.00
Total F/Liabilities	**25,081,023**	**2,468,117.17**	**1,421,245.14**	**1,658,22.53**	**42,902,711.74**
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**	**615,997**

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's Risk Management and the Board's Risk Committee.

The Bank Risk Management is responsible for the development of detailed risk management policies and procedures (subject to review and approval by the Board's Risk Committee) and for the day to day implementation of those policies.

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

4.4.1 Management of Market Risk

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

I. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates.

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

The bank's exposure to the risk of changes in market interest rates relates primarily to the bank's obligations and financial assets with floating interest rates. The bank is also exposed on fixed rate financial assets and financial liabilities. The bank's investment portfolio is comprised of treasury bills, Ethiopian government bonds, Development Bank of Ethiopia bond and cash deposits.

The table below sets out information on the exposures to fixed and variable interest instruments.

30 June 2022	Fixed Interest	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000
Assets			
Cash and balances with banks	16,488,220	-	16,488,220
Loans and advances to customers	69,336,114	-	69,336,114
Interest free banking		13,362,820	13,362,820
Investment securities	-		
Financial asset at FVOCI		179,715	179,715
Financial assets at Amortized cost	8,045,538	-	8,045,538
Other assets	2,780,254	-	2,780,254
Total	**96,650,127**	**13,542,535**	**110,192,662**
Liabilities			
Deposits from customers	43,182,565	52,656,503	95,839,068
Due to other banks	929,933	-	929,933
Other liabilities	2,780,254	-	2,780,254
Total	**46,892,752**	**52,656,503**	**99,549,255**

30 June 2021	Fixed Interest	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000
Assets			
Cash and balances with banks	14,093,845	-	14,093,845
Loans and advances to customers	45,783,603	-	45,783,603
Interest free banking		7,816,229.08	7,816,229
Investment securities	-		
Financial asset at FVOCI	112,826	-	112,826
Financial assets at Amortized cost	8,966,193	-	8,966,193
Other assets	2,006,639	-	2,006,639
Total	**70,963,106**	**7,816,229**	**67,693,676**
Liabilities			
Deposits from customers	32,696,125	37,693,904	70,390,028
Due to other banks	728,376	-	728,376
Other liabilities	2,412,976	-	-
Total	**35,837,477**	**37,693,904**	**71,118,405**

II. Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. The bank is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The bank's foreign currency bank accounts act as a natural hedge for these transactions. Management has set up a policy to manage the bank's foreign exchange risk against its functional currency.

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

Foreign currency denominated balances	30 June 2022	30 June 2021	30 June 2020
	Birr'000	Birr'000	Birr'000
USD	(56,927)	87,892	37,797.35
EURO	(3,884)	7,353	4,612.94
GBP	11	244	4,733
DIRAHM	1,146	868	1,074.37
RIYAL	691	377	869.33
JPY	-	2,985	2,985
Total	**(58,963)**	**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:

Sensitivity analysis	30 June 2022	30 June 2021
	Birr'000	Birr'000
Effect of 10% increase in exchange rate on profit or loss (USD)	(5,692.72)	8,789.17
Effect of 10% decrease in exchange rate on profit or loss (USD)	5,693	(8,789)
Effect of 10% increase in exchange rate on profit or loss (EUR)	(388)	735
Effect of 10% decrease in exchange rate on profit or loss(EUR)	388	(735)
Effect of 10% increase in exchange rate on profit or loss (GBP)	1	24
Effect of 10% decrease in exchange rate on profit or loss (GBP)	(1)	(24)
Effect of 10% increase in exchange rate on profit or loss (DIRAHM)	115	87
Effect of 10% decrease in exchange rate on profit or loss (DIRAHM)	(115)	(87)
Effect of 10% increase in exchange rate on profit or loss (RIYAL)	69	38
Effect of 10% decrease in exchange rate on profit or loss (RIYAL)	(69)	(38)
Effect of 10% increase in exchange rate on profit or loss (JPY)	-	298.53
Effect of 10% decrease in exchange rate on profit or loss (JPY)	-	(299)

4.5 Capital Management

The bank’s objectives in managing capital are:

- To comply with the capital requirements set by regulators (NBE) 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(CAR)

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

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

Capital includes Capital contribution, Retained earnings, Legal reserve and Other reserves to be approved by the National Bank of Ethiopia.

	30 June 2022	30 June 2021	30 June 2020
	Birr'000	Birr'000	Birr'000
Capital			
Paid-up capital	7,731,771	4,651,021	3,000,000
Retained earnings	-	-	793,223
Capital reserves	3,932	3,932	3,932
Share Premium	8,672	8,672	8,672
Legal reserve	1,755,144	1,243,812	912,017
	9,499,519	**5,907,437**	**4,717,844**
Risk weighted assets			
Risk weighted balance for on-balance sheet items	89,674,017	57,380,353	37,096,746
Credit equivalents for off-balance sheet Items	4,087,847	6,265,116	4,939,178
Total risk weighted assets	**93,761,864**	**63,645,469**	**42,035,924**
Risk-weighted Capital Adequacy Ratio (CAR	**10.13%**	**9.28%**	**11.22%**
Minimum required capital	**8.00%**	**8.00%**	**8.00%**

4.6 Fair Value of Financial Assets and Liabilities

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

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

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

4.6.1 Valuation Models

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

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

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

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

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

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

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

	30 June 2022	**30 June 2021**
	Carrying amount Birr'000	**Carrying amount Birr'000**
Financial assets		
Cash and balances with banks	16,488,220	14,093,845
Loans and advances to customers	69,336,114	45,783,603
Interest free financing	13,362,820	7,816,229
Investment securities	-	-
Equity Investment	179,715	112,826
Amortized Cost	8,045,538	8,966,193
Other asset	2,780,254	2,006,639

Total	**110,192,662**	**78,779,335**
Financial liabilities		
Deposits from customers	95,839,068	70,390,028
Due to other banks	929,933	728,376
Other liabilities	5,268,344	2,412,976
Total	**102,037,345**	**73,531,380**

4.6.3 Fair Value Methods and Assumptions

I. 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.

II. Cash

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

III. 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.

IV. 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.

V. 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.

4.7 Offsetting Financial Assets and Financial Liabilities

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

Cooperative Bank of Oromia S.C
Financial Statements
Interest free banking statement of profit or loss
For the year ended 30 June 2022

	30 June 2022 Birr'000	30 June 2021 Birr'000
Commission income	171,349	125,631
Income from Murahaba financing	-	-
Income from trade financing	955,125	426,712
Service charges	-	-
Other Income	13	-
Total operating income	**1,126,486**	**552,343**
Other operating expenses	(59,935)	(22,911)
Profit before tax	**1,066,552**	**529,432**
Income tax expense	(319,965)	(158,830)
Profit after tax	**746,586**	**370,602**

Cooperative Bank of Oromia S.C

Financial Statements

Interest free banking statement of financial position

For the year ended 30 June 2022

	30 June 2022	30 June 2021
	Birr'000	Birr'000
ASSETS		
Cash and balances with banks	863,400	737,728
Net loan and advance	13,340,720	7,816,229
Profit receivable	2,876,670	2,302,193
Other assets	39,980	737,000
Total assets	**17,120,770**	**11,593,150**
LIABILITIES		
Deposits from customers	15,283,640	11,593,150
Other liabilities	1,837,130	-
CAPITAL	-	-
Total liabilities and Equity	**17,120,770**	**11,593,150**

5 Interest income

	30 June 2022 Birr'000	30 June 2021 Birr'000
Loans and advances to customers	7,243,504	4,882,115
Suspended Interest Income	110,863	6,908
National Bank of Ethiopia bills and bonds	551,799	380,666
Due from other banks	177,441	147,385
	8,083,608	**5,417,074**

6 Due to customers

	30 June 2022 Birr'000	30 June 2021 Birr'000
Due to customers	2,700,753	2,028,568
	2,700,753	**2,028,568**

7 Fee and commission income

	30 June 2022 Birr'000	30 June 2021 Birr'000
Foreign currency transactions	1,133,033	811,999
Letter of guarantee	270,007	198,215
Other commission	206,966	156,467
	1,610,006	**1,166,681**
Fee and commission expense	-	-
Net fees and commission income	**1,610,006**	**1,166,681**

8 Other operating income

	30 June 2022 Birr'000	30 June 2021 Birr'000
Income from murabaha financing	955,125	426,712
Dividend income	6,279	7,694
Estimation and inspection fee	35,022	25,662
Gain on disposal of property plant and equipment	6,540	12,896
Gain on foreign currency transactions	1,316,942	917,946
Other income	38,528	50,871
Rental income	1,132	3,092
Telephone, postages and money bags	69	284
	2,359,636	**1,445,157**

9 Impairment charge

	30 June 2022 Birr'000	30 June 2021 Birr'000
Loans and advances - charge for the year	631,367	228,040
Impairment Loss on PPE	260	-
	631,627	**228,040**

10 Personnel expenses

	30 June 2022 Birr'000	30 June 2021 Birr'000
Salaries and wages	1,400,509	997,880
Staff allowances	127,191	101,816
Staff Award	27,020	124
Pension costs – Defined contribution plan	152,327	109,353
Pension costs – Defined Benefit plan	32,849	15,095
Prepaid staff expenses	42,354	29,833
Other staff expenses	538,332	363,525
	2,320,581	**1,617,626**

11 Operating expenses

	30 June 2022 Birr'000	30 June 2021 Birr'000
Advertisement and publicity	155,608	96,103
Amortization of leasehold	16	14
Audit fee	404	386
Bank charges	110	(74.54)
Board of directors remuneration	2,108	1,200
Cleaning	2,248	3,305
Data processing	14,286	6,572
Donations	44,747	28,047
Entertainment	9,193	2,692
Fuel	20,951	10,331
Insurance	24,960	15,937
Internet	46,569	40,745
Legal and professional fee	3,052	2,799
Movable Collateral Registry	36	-
Other operating expense	612,011	386,000
Penalty	32,512	17,876
Per diem	20,455	15,746
Rent	352,541	249,831
Finance Cost of rent	7,162	2,947
Repair and maintenance	85,011	41,902
Representation allowance	103,398	62,050
Stationeries	71,473	58,658
General Supply Stock Expense	14,854	-
Subscription and membership fee	5,719	3,561
Taxes	29	24
Telephone and postage	329	225
Transportation	117,111	107,393
General Assembly	6,107	-
Water and electricity	12,529	9,048
Loss on foreign exchange transactions	1,573,728	1,159,478
	3,339,258	**2,322,795**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
12	**Company income and deferred tax**		
12a	**Current income tax**		
	Company income tax	773,844	397,402
	Deferred income tax/(credit) to profit or loss	24,079	(28,526)
	Total charge to profit or loss	797,922	368,876
	Total tax in statement of comprehensive income	**797,922**	**368,876**

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 2022	30 June 2021
	Birr'000	Birr'000
Profit before tax	**2,843,250**	**1,669,732**
Add : Disallowed expenses		
Entertainment	9,193	2,692
Donation	26,747	5,047
Legal provision	3,537	20
General Assembly	6,107	2,073
Penalty	32,512	17,876
Accrued Leave	63,477	23,195
Prepaid staff expense	42,354	29,832
Loss on foreign exchange transactions	256,786	241,532
Impairment Loss	259.55	-
Severance pay	30,696	41,419
Provision for loans and advances as per IFRS	631,367	228,040
Depreciation for accounting purpose	199,734	127,418
Amortization for accounting purpose	18,047	8,410
Total disallowable expenses	**1,320,817**	**727,553**
Less : Allowable expenses		
Depreciation and amortization for tax purpose	255,477	186,297
Provision for loans and advances for tax NBE 80%	539,604	139,565
Dividend income taxed at source	6,039	7,264
Interest income on staff loans	54,627	28,766
Reversal of Regulatory Risk reserve	-	173,020
Reversal on Severance pay	-	10,670
Interest income taxed at source-NBE Bills	551,799	379,704
Interest income taxed at source-Local Deposit	177,042	147,326
Total allowable expenses	**1,584,589**	1,072,611
Taxable profit	**2,579,479**	**1,324,674**
Current tax at 30%	**773,844**	**397,402**

12c	Current income tax liability	30 June 2022 Birr'000	30 June 2021 Birr'000
	Balance at the beginning of the year	396,833	208,436
	Charge for the year:	773,844	397,402
	Income tax expense	(396,833)	(208,436)
	Payment during the year	(19)	(569)
	Balance at the end of the year	**773,825**	**396,833**

12d Deferred income tax

The following table shows deferred tax recorded in the statement of financial position and charges recorded in the income tax expense;

	30 June 2022 Birr'000	30 June 2021 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	37,404	(29,639)
To be recovered within 12 months	43,813	
	81,217	**(29,639)**

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 2021	Prior Year Adjustment	Credit/ (charge) to P/L	30 June 2022
		Birr'000		Birr'000	Birr'000
	Property, plant and equipment	(49,023)	37,972	(52,331)	(63,382)
	Accrued leave provision	6,958	17,812	19,043	43,813
	Post-employment benefit obl.	12,426	15,769	9,209	37,404
	Total deferred tax assets/(liabilities)	**(29,639)**	**71,552**	**(24,079)**	**17,835**
12e	**Total deferred tax assets**	**19,384**			**81,217**
12f	**Total deferred tax liab.**	**(49,023)**			**(63,382)**
	Deferred income tax assets/(liabilities):	At 1 July 2020	Cr.(charge) to PL	Cr.(charge) equity	30 June 2021
		Birr'000	Birr'000	Birr'000	Birr'000
	Property, plant and equipment	(59,754)	10,731		(49,023)
	Accrued leave provision	-	6,958		6,958
	Post-employment benefit obl.	1,589	10,837		12,426
	Total deferred tax assets/(liabilities)	**(58,165)**	**28,526**	**-**	**(29,639)**
12e	**Total deferred tax assets**				**19,384**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
13a	**Cash and cash equivalent**		
	Cash in hand	4,626,914	3,580,289
	Deposits with local banks	1,822,717	1,890,885
	Deposits with foreign banks	1,226,958	1,046,260
	Balance held with National Bank of Ethiopia	2,051,643	3,852,445
		9,728,232	**10,369,879**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
14	**Loans and advances to customers**		
	Agriculture	1,231,824	505,233
	Manufacturing	12,290,221	9,088,737
	Export	17,459,220	11,927,928
	Merchandise	2,162,215	1,453,053
	Import	4,747,682	1,930,830
	Domestic trade and service	23,042,353	17,728,655
	Building and construction	3,134,246	2,124,341
	Staff loans	6,466,333	1,928,373
	Gross amount	**70,534,094**	**46,687,150**
	Stage 1 12 month ECL	(437,551)	(283,812)
	Stage 2 Life time ECL	(3,262)	(1,652)
	Stage 3 Life time ECL	(735,126)	(618,083)
	Suspended Int.IFRS Adjustment	(22,041)	
	Net Conventional Loan Balance	**69,336,114**	**45,783,603**

Maturity analysis	30 June 2022	30 June 2021
	Birr'000	Birr'000
Within 3 Months	786,786	5,568,708
3 months up to 1 year	6,804,337	13,727,832
1 Year up to 2 years	7,594,114	4,982,770
2 Years up to 3 years	9,865,864	6,149,852
3 years up to 5 years	17,332,208	6,449,587
> 5 years	28,150,786	9,808,402
	70,534,094	**46,687,150**

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:

	As at 30 June 2022	Charge for the year	As at 30 June 2021
Specific allowance for impairment	Birr'000	Birr'000	Birr'000
- Stage 1 12 month ECL	437,551	153,738	283,812
- Stage 2 Life time ECL	3,262	1,610	1,652
- Stage 3 Life time ECL	735,126	117,043	618,083
Total impairment allowance	**1,175,939**	**272,391**	**903,547**

15 Interest free Financing

	30 June 2022 Birr'000	30 June 2021 Birr'000
Agriculture -IFB	210,992	94,948
Manufacturing -IFB	3,128,346	2,418,513
Export -IFB	3,201,593	1,747,649
Import-IFB	1,088,479	143,362
Domestic trade and service -IFB	3,587,667	1,874,578
Building and construction -IFB	2,183,171	1,514,506
Others-IFB	54,131	22,674
	13,454,379	**7,816,229**
Less Collective Impairment		-
- Stage 1 12 month ECL	(40,124)	-
- Stage 2 Life time ECL	(41,405)	-
- Stage 3 Life time ECL	(10,030)	-
Net Interest free Financing	**13,362,820**	

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Within 3 Months	112,354	936,950
3 months up to 1 year	3,119,181	1,292,159
1 Year up to 2 years	1,171,058	1,125,362
2 Years up to 3 years	2,117,471	1,282,064
3 years up to 5 years	2,819,716	1,510,216
> 5 years	4,114,600	1,669,478

16 Investment securities

	30 June 2022 Birr'000	30 June 2021 Birr'000
Equity Investments	112,826	112,326
Additional for the year	25,000	500
Adjustment	(500)	
Revaluation gain or loss	42,389	-
	179,715	**112,826**

During the year, the Bank has made additional investment of Br.25million in the equity holding of Oromia Insurance Share Company.

16a. The following are the equity investments of the Bank as at 30 June 2022:

		30 June 2022 Birr'000		
Investee Company	**Percentage holding**	**Cost**	**Revaluation gain/loss**	**Total**
Oromia Insurance Company S.C	5%	50,000	31,286	81,286
Orologo Prefabricated Factory plc	20%	15,000	-	15,000
Gutu Oromia S.C	3.5%	3,500	-	3,500
Elemtu Integrated Milk Industry	6.58%	5,000	4,999	9,999
Eth-Switch Solution S.C	2.03%	12,502	37,925	50,428
Premium Switch Solution(PSS)	3.22%	4,800	8,987	13,787
Bomoj Meat Industry S.C	1.79%	1,250	-	1,250
Melba Printing and Publishing S.C	1.46%	10,000	(5,535)	4,465
		102,052	**77,663**	**179,715**

		30 June 2021 Birr'000		
Investee Company	**Percentage holding**	**Cost**	**Revaluation gain/loss**	**Total**
Oromia Insurance Company S.C	5.3%	25,000	23,495	48,495
Orologo Prefabricated Factory plc	20.0%	15,000	-	15,000
Gutu Oromia S.C	17.7%	3,500	-	3,500
Elemtu Integrated Milk Industry	7.6%	5,000	(5,470)	(470)
Eth-Switch Solution S.C	2.7%	12,502	18,208	30,710
Premium Switch Solution(PSS)	3.2%	4,800	(960)	3,840
Bomoj Meat Industry S.C	1.5%	1,250		1,250
Melba Printing and Publishing S.C	3.0%	10,500	-	10,500
		77,552	**35,274**	**112,826**

The Bank holds equity investments in Eth-Switch of 2.03%, Premium Switch Solutions 3.22%, Oromia Insurance Company 5%, Gutu Oromia Business 3.5%, Orologo Prefabricated PLC 20%, Elemtu Integrated Milk Industry 6.58%, Bomoj Meat Processing and Export S.C 1.79% and Melba Printing and Publishing S.C 1.46% as at 30 June 2022. These investments are unquoted equity securities measured at fair value through other comprehensive income (FVOCI).

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

17 Amortized Cost:

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Ethiopian Government bills	-	8,945,473
Treasury bills	7,468,968	-
Ethiopian Government Bonds	576,570	20,720
Gross amount	**8,045,538**	**8,966,193**
Maturity analysis	**30 June 2022**	**30 June 2021**
	Birr'000	**Birr'000**
Current	-	1,738,810
Non-Current	8,045,538	7,227,383
	8,045,538	**8,966,193**

18 Other assets

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Financial assets		
Un cleared effects of transfers - Foreign	1,133,233	262,256
Un cleared effects of transfers - Local	15,013	8,794
ATM settlement receivables	35,402	24,063
Money transfer agents	5,013	12,044
Advance on murabaha	57,351	475,397
Account receivable	302,517	336,848
Gross amount	**1,548,529**	**1,119,402**
Less: Specific impairment allowance	(224,637)	(31,734)
	1,323,892	**1,087,668**
Non-financial assets		
Repossessed collateral	-	12,035
Fixed asset in store	117	117
Prepaid staff expense	571,901	497,796
Prepayment for new branch opening	89,706	55,127
Prepayments	677,070	260,502
General supplies	117,542	93,394
Sundry receivables	26	-
Gross amount	**1,456,362**	**918,971**
Net Financial and Non-financial asset	**2,780,254**	**2,006,639**
Maturity analysis	**30 June 2022**	**30 June 2021**
	Birr'000	**Birr'000**
Current	2,432,873	1,540,460
Non-Current	572,018	497,913
	3,004,891	**2,038,373**

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa COOP Cooperative Bank of Oromia

18a Impairment allowance on other assets

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

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Balance at the beginning of the year	31,734	58,488
Charge for the year	192,903	(26,754)
Balance at the end of the year	**224,637**	**31,734**

19 Intangible Assets	Purchased software Birr'000	Total Birr'000
Cost:		
As at 1 July 2021	114,005	114,005
Acquisitions	174,368	174,368
As at 30 June 2022	**288,373**	**288,373**
Accumulated amortization		
As at 1 July 2021	31,505	**31,505**
Amortization for the year	18,047	18,047
As at 30 June 2022	**49,553**	49,553
Net book value		
As at 30 June 2021	82,500	82,500
As at 30 June 2022	**238,820**	**238,820**

20 Property, plant and equipment	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
Cost:						
As at 1 July 2021	**82,539**	**595,791**	**589,753**	**343,533**	**440,898**	**2,052,514**
Additions	23,662	308,099	194,598	183,624	156,737	866,720
Disposals	-	3,002	5,774	11,663	-	20,439
Reclassification	-	29,445	111,283	25,767		166,495
Transfer to Non-Asset Held to Sale	-	-	7,812	5,642		13,455
As at 30 June 2022	**106,201**	**936,337**	**909,220**	**570,230**	**597,635**	**3,119,623**
Accumulated depreciation						
As at 1 July 2021	**5,664**	**118,192**	**200,433**	**152,241**	**-**	**476,530**
Charge for the year	2,210	67,195	74,873	55,455	-	199,734
Disposals	-	(2,603)	(4,154)	(9,561)	-	(16,317)
Reclassification	-		(447)	472		25
Transfer to Non-Asset Held to Sale	-	-	(6,716)	(4,441)		(11,157)
As at 30 June 2022	**7,874**	**182,784**	**263,990**	**194,167**	**-**	**648,815**
Accumulated Impairment						
As at 1 July 2021	**-**	**-**	**2,888**	**1,366**	**-**	**4,255**
Transfer to Non-Asset Held to Sale	-	-	(694)	(935)	-	(1,629)
As at 30 June 2022	**-**	**-**	**2,195**	**431**	**-**	**2,626**
Net book value						
As at 30 June 2021	76,875	477,599	386,251	189,677	440,898	1,571,729
As at 30 June 2022	**98,327**	**753,553**	**643,035**	**375,632**	**597,635**	**2,468,182**

20a Non-current assets held for sale

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Balance at the beginning of the year	109,646	125,553
Transfer from repossessed collateral	33,922	26,808
Transfer from property, plant and equipment	451	-
Reversal of property, plant and equipment	-	(8,130)
Disposals of property, plant and equipment	(18,843)	(34,585)
Balance at the end of the year	**125,176**	**109,646**

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

	Building	Total
As at 1 July 2021	758,365	758,365
Depreciation charge for right-of-use assets	(352,541)	(352,541)
Additions	1,093,921	1,093,921
Balance at June 2022	**1,499,745**	**1,499,745**

Right use of asset and financial lease liability

A Lease Liability

	Building	Total
Balance at July 2020	102,722	**102,722**
Additions	32,149	32,149
Payment	22,239	22,239
Balance at June 2021	112,631	**112,631**
Balance at July 2021	112,631	**112,631**
Adjustment	(7,162)	(7,162)
Additions	228,497	181,920
Balance at June 2022	**294,552**	**294,552**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
21	**Deposits from customers**		
	Demand deposits	29,317,406	20,963,328
	Savings deposits	43,182,565	32,696,125
	Time deposits	7,130,455	4,749,085
	Wadiah demand deposits	3,282,896	2,394,378
	Wadiah savings deposits	12,923,244	9,584,249
	Mobile money savings	2,502	2,863
		95,839,068	**70,390,028**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
22	**Due to other banks**		
	Demand deposits	191,825	432,260
	Saving deposits	738,108	296,117
		929,933	**728,376**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
23	**Borrowing**		
	Borrowing from NBE	-	41,687
		-	**41,687**

		30 June 2022	30 June 2021
		Birr'000	Birr'000
24	**Other liabilities**		
	Financial liabilities		
	Interest payable on deposits	-	1
	Letter of credit margin payables	1,535,097	1,567,019
	ATM settlement payable	109,991	37,389
	CTS Settlement account	1,290	462
	Dividend payables	25,624	22,789
	Blocked accounts	18,497	17,341
	Telegraphic and Money transfer payable	(41,696)	2
	Over the Counter Cash Payment (OTCP)	20	-
	Exchange payable	9,458	19,896
	Provision for fidelity Risk	1,350	966
	Money transfer agent	(81,109)	10,357
	Cash payment order payable	248,762	126,906
	Board of directors remuneration payable	1,472	1,453
	Staff payables	442,404	322,348
	Cash collateral on guarantees	233	922
		2,271,393	**2,127,851**

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	8,220	5,650
Stamp duty charges	13,735	6,702
Withholding tax payable	5,245	4,835
Other tax payable	53,825	34,745
Deferred Income Loan Processing Fee	16,880	14,155
Deferred Income Guarantee Commission	154,105	78,835
Deferred Income LC Commission	46,064	72,119
Deferred Income- IFB	44	92
Sundry payables	2,698,833	67,992
	2,996,951	**285,125**
Gross amount	**5,268,344**	**2,412,976**

Maturity analysis	**30 June 2022**	**30 June 2021**
	Birr'000	**Birr'000**
Current	1,883,297	1,066,210
Non-Current	3,385,047	1,346,766
	5,268,344	**2,412,976**

	30 June 2022	**30 June 2021**
	Birr'000	**Birr'000**
Retirement benefit obligations		
Defined benefits liabilities:		
▪ Severance pay (note 25a)	124,679	93,983
Liability in the statement of F/position	**124,679**	**93,983**
Profit or Loss charge included in personnel expenses:		
▪ Severance pay (note 25a)	28,495	15,095
Total defined benefit expenses	**28,495**	**15,095**
Re-measurements for:		
▪ Severance pay (note 25a)	(4,354)	(26,324)
	(4,354)	**(26,324)**

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

Maturity analysis	**30 June 2022**	**30 June 2021**
	Birr'000	**Birr'000**
Current	28,495	15,095
Non-Current	96,184	78,888
	124,679	**93,983**

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.

		30 June 2022 Birr'000	30 June 2021 Birr'000
A	**Liability recognized in the financial position**	124,679	93,983

		30 June 2022 Birr'000	30 June 2021 Birr'000
B	**Amount recognized in the profit or loss**		
	Current service cost	13,121	6,682
	Interest cost	15,374	8,413
		28,495	**15,095**
C	**Amount recognized in other comprehensive income:**		
	Actuarial (Gains)/Losses on demographic assumptions		
	Actuarial (Gains)/Losses on economic assumptions	6,197	1,524
	Actuarial (Gains)/Losses on experience	(10,551)	(27,848)
		(4,354)	**(26,324)**

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 2022 Birr'000	30 June 2021 Birr'000
At the beginning of the year	93,983	52,927
Current service cost	13,121	6,682
Interest cost	15,374	8,413
Bank Paid Benefits	(2,153)	(363)
Re-measurement (gains)/ losses	4,354	26,324
At the end of the year	**124,679**	**93,983**

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Baankii Hojii Gamtaa Oromiyaa Coop Bank of Oromia Cooperative Bank of Oromia

The significant actuarial assumptions were as follows:

A Financial Assumption Long term Average

	30 June 2022 Birr'000	30 June 2021 Birr'000
Discount Rate	23.60%	14.50%
Long term salary increases	19.30%	12.00%

B. 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:

	Mortality rate	
Age	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

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

	Impact on defined benefit obligation		Impact on defined benefit obligation	
	30 June 2022		30 June 2021	
Change in assumption	Impact of an increase	Impact of a decrease	Impact of an increase	Impact of a decrease
	Birr'000	Birr'000	Birr'000	Birr'000
Discount rate;1%	118,865	130,829	88,879	99,429

	Impact on current service cost		Impact on current service cost	
	30 June 2022		30 June 2021	
Change in assumption	Impact of an increase	Impact of a decrease	Impact of an increase	Impact of a decrease
	Birr'000	Birr'000	Birr'000	Birr'000
Salary increase:1%	131,003	118,612	99,504	88,724

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 recognized within the statement of financial position.

26 Share Capital

Authorized:		
Ordinary shares-par value of Birr 100 each	13,000,000	13,000,000
Issued and fully paid:		
Ordinary shares- par value of Birr 100 each	**7,731,771**	**4,651,021**

27 Share Premium

	30 June 2022	30 June 2021
	Birr'000	Birr'000
At the beginning of the year	8,672	8,672
Addition during the year	-	-
	8,672	**8,672**

28 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 2022	30 June 2021
	Birr'000	Birr'000
Profit attributable to shareholders	2,045,328	1,300,856
Weighted aver No.of ordinary shares in issue	59,729	32,346
Basic & diluted earnings per share (Birr)	**34**	**40**

29 Retained Earnings

At the beginning of the year	950,393	793,223
Profit/ (Loss) for the year	2,045,328	1,327,180
Director's share of profit	(1,472)	(1,453)
Transfer to Legal reserve	(511,332)	(331,795)
Transfer to Regulatory Risk reserve	(154,001)	(6,908)
Transfer to Dividend payable	(950,393)	(793,223)
Reversal Severance Liability	-	363.00
Transfer to Risk reserve(Severance)	-	(36,994)
At the end of the year	**1,378,523**	**950,393**

Tefesse, Shisema & Alyalew Certified Audit Partnership TMS Plus

Baankii Hojii Gamtaa Oromiyaa Cooperative Bank of Oromia coop

	30 June 2022	30 June 2021
	Birr'000	Birr'000
30 Legal Reserve		
At the beginning of the year	1,243,812	912,017
Transfer from profit or loss	511,332	331,795
At the end of the year	**1,755,144**	**1,243,812**

The NBE Directive No. SBB/4/95 states that the Bank to transfer annually 25% of its annual net profit to its legal reserve account until such account equals its paid up capital. When the legal reserve account equals the paid up 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 2022	30 June 2021
31 Regulatory Risk Reserve	Birr'000	Birr'000
At the beginning of the year	237,590	393,033
Transfer From Retained Earning	154,001	6,908
Revaluation Gain-Equity Investment	42,389	-
Other comprehensive income	-	10,670
Reversal of Regulatory Risk reserve	-	(173,020)
At the end of the year	**433,980**	**237,590**

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

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred from regulatory risk reserve to the retained earnings to the extent of the non-distributable reserve previously recognized.

32 Donated Capital	30 June 2022	30 June 2021
	Birr'000	Birr'000
At the beginning of the year	3,932	3,932
	3,932	**3,932**

	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
Cash generated from operating activities			
Profit before income tax		**2,843,250**	**1,696,056**
Adjustments for non-cash items:			
Net gain/(loss) on foreign exchange			
Depreciation of property, plant and equipment	20	199,734	127,418
Amortization of intangible assets	19	18,048	8,410
Net gain/Loss on disposal of property plant and equipment(net)	8	(6,540)	(12,896)
Impairment on loans and receivables	14	631,108	53,584
Reversal accumulated Impairment of PPE	14	1,629	429
Suspended Interest Income	5	(110,863)	
Amortization of Right use Asset	20b	352,541	
Dividend income	5	(6,279)	(7,694)
Adjustment on property plant and Equipment		4,391	
Interest on lease liability		7,162	
Retirement benefit obligations	25	30,696	15,095
Changes in working capital:			
-Decrease/(increase) in restricted cash	13	(3,036,022)	(1,421,036)
-Decrease/ (Increase) in loans and advances	14	(23,846,944)	(16,507,701)
-Decrease/ (Increase) in interest free financing	15	(5,638,150)	(3,866,303)
-Decrease/ (Increase) in other assets	18	(773,615)	(570,750)
-Decrease/ (Increase) NCAHFS	20a	15,531.00	(15,907)
-Decrease/Increase in Customers deposits	21	25,449,040	25,447,361
-Decrease/Increase in Due to other banks	22	201,557	160,163
-Increase/ (Decrease) in other liabilities	24	2,855,368	851,929
		(808,358)	**5,958,158**

34. Related party transactions

A related party transaction is a transfer of resources, services or obligations between a reporting entity or the bank in our case and a related party, regardless of whether a price is charged. CBO is largely owned by cooperatives with primary cooperatives having 19.15%, cooperatives union 31.13%, cooperatives federation 4.9% and non-cooperatives; organizations and associations 11.33% and individuals 33.48%. The bank has entered into a number of transactions with related parties as at 30 June 2022.

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

	30 June 2022	30 June 2021
	Birr'000	Birr'000
34a Transactions with related parties		
Loans and advance to key management	203,558	73,434
Cooperatives and union	7,897,041	4,835,626
	8,100,599	**4,909,060**

34b 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 below.

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Salaries and other short-term employee benefits	35,700	18,029
Sitting allowance	2,354	600
Other expenses	-	1,499
	38,054	**20,128**

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

34c Board of Directors compensation

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

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Profit sharing	1,472	1,453
	1,472	**1,453**

35. Contingent liabilities

35a. 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 June 30,2022 is birr 36.9 million and as at June 30 June 2021 is birr 80.1 million provision has been made in the financial statements as at 30 June 2022 is birr 3.5 million.

35b 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 30,2022 is birr 352.6 million and as at June 30,2021 is birr 125.7 million. 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.

35c. Guarantees and Letters of Credit

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

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

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

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Guarantees issued	933,243	8,535,530
Letters of Credit	1,492,914	2,008,110
	2,426,157	**10,543,640**

36 Commitments

The Bank has commitments (for undrawn overdrafts and loans approved but not yet disbursed) of Birr 4,257 million, 3,196 million and Br.3, 401 million not provided for in these financial statements as of June 30, 2022, June 30, 2021 and June 30, 2020 respectively.

37 Right use of asset (ROA) and Lease liabilities

The Bank leases properties particularly buildings for branch outlets and for head office spaces. The lease terms generally fall between two to five years and the majority of these lease agreements are renewable at the end of each lease period at market rate. Payments are made initially for as an advance payment.

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 2022		30 June 2021	
	Birr'000		Birr'000	
Maturity	**ROA**	**Lease liabilities**	**ROA**	**Lease liabilities**
Within one year	14,103	3,355.18	77,154	3,599
After 1 year but within 2 years	85,316	10,220.17	53,952	4,786
After 2 years but within 5 years	1,080,301	225,851.16	531,088	88,390
After 5 years	320,025	55,125.13	96,172	15,856
Total	**1,499,74**	**294,551**	**758,365**	**112,631**

38 Events after reporting period

In the opinion of the Directors, there were no significant post Statement of Financial Position events which could have a material effect on the state of affairs of the Bank as at 30 June 2022 and on the profit for the period then ended, which have not been adequately provided for or disclosed.