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TSEDEY BANK S/C

"የሁሉም ባንክ !"

"BANK FOR ALL !"

ANNUAL REPORT

2021/22

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TSEDEY BANK S/C

Vision, Mission and Core Values

Vision

To become the leading, inclusive and transformative commercial bank in Ethiopia by the year 2030.

Mission

Greatly contributing to the socio-economic transformation of Ethiopia by providing modern, inclusive and efficient banking services using the best available systems and technologies, and through the hard work and commitment of its highly competent staff

Core Values

1. Professionalism
2. Integrity
3. Service Excellence
4. Sense of ownership
5. Inclusive

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TSEDEY BANK S/C

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Designed & Printed by

master print

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Board Members

Ato GeduAndargachew,
Board Chairman

Ato Agegnehu Teshager
Vice Board Chairman

Dr Fenta Mandefro
Member

Ato Eshetie Gelaw
Member

Ato Tadesse Melash
Member

Ato Wendale Getahun
Member

Ato Yilebes Addis
Member

W/ro Selamawit Alemayehu
Member

Ato Shimelis Belachew
Member

Dr Meselu Alaminie
Member

AtoAbata Girma
Member

Executive Management

Ato Mekonnen Yelewmwesen
Chief Executive Officer

Ato Gashaw Workineh
Chief Corporate Resource Officers

AtoTemesgen G Egziabher
Chief Information Officer

Ato Agazie Getahun
Chief Resource Mobilization & Customer Service Officer

Ato Tewabe Aysheshim
Chief Strategy & Marketing Officer

Ato Birhanu Abera
Chief Credit Service Officer

Ato Wondie Wodaje
Chief International Banking Officer

Directors

Ato Gojjam Hunegnaw
Human Resource Management & Development Department

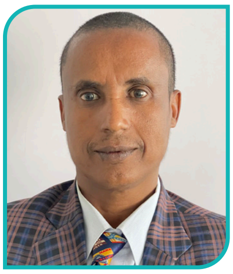
Ato Tiguh Aragaw
Strategy & Change Management Department

Ato Melaku Ayalew
Procurment& Contract Administration Department

Ato Melese Angaw
Digital Banking Department

Ato Mulualem Zewidie
Legal Service & Loan Recovery Department

Ato Destaw Mekuriaw
Medium & Large Credit Service Department



Ato Dereje Chanie
Internal Audit Department

Ato Yilma Kassahun
Risk and Complience Department

Ato Tewodros Legerse
Trade Service & Correspondent Banking Department

Ato Nebiyu Moges
Remittance & Forex Department

Board Chairman's Statement

Ato GeduAndargachew
Board Chairman

Dear Honored Shareholders:

On behalf of the Board of Directors and myself, I am honored to present the annual report of Tsedey Bank S.C. for the 2021/22 FY.

During the year under review, the Amhara Credit and Savings Institution, serving the community-based in the Amhara region, was transformed into Tsedey Bank. As a result, Tsedey Bank is joining the banking industry with huge assets, more than 12,000 hardworking and experienced employees, and several million customers, including young people, women, and small to large investors.

I like to quote Alexander Graham Bell's speech about the purpose of the transition. "The success of one goal must be the starting point for another," says Alexander. Although ACSI has done many successful projects in microfinance, we did not want to be satisfied with this. As a result, the shareholder of ACSI decided to transform microfinance into a full-fledged bank, including microfinance services. Accordingly, Tsedey Bank is established. Tsedey Bank is an all-Ethiopian bank that planted its roots in the Amhara region, spread its branches all over Ethiopia, and is entering the banking business with huge wealth and assets to become one of the most competitive banks in East Africa. Our new goal is to spread our wings and put our stamp of excellence in more villages and towns across Ethiopia.

Dear Honored Shareholders:

Many successes and challenges marked the transition from microfinance to banking.

During the FY, the key function was the launch of the upgraded core banking services. In this regard, technological innovations have been and will continue to be a powerful means of customer acquisition, retaining existing customers, reducing costs, building customer loyalty, and increasing shareholder values. In addition, innovation will continue as a marketing tool to provide brand reinforcement, promote business and build the Bank's brand. Hence, Tsedey Bank constructed a huge and modern data center.

Moreover, we spent much time scrutinizing the preparation of the Bank's strategy and transformation agenda and enhancing our oversight of the Bank's culture. As a result, the Bank's 5-year strategic plan was prepared and approved. It gives us a clear purpose: our people are the bedrock of the Bank, and their well-being remains a top priority.

During the FY, the Board visited the head office, regional, district, and branch offices and conducted a field assessment to understand the reality on the ground and to know the problems at the grassroots level.

The Bank's headquarters building construction, expected to be finalized within the concluded fiscal year, has reached its completion stage. Though it is behind schedule, most of the finishing works are currently in full swing, and the building is expected to be fully completed and will become operational at the end of the fiscal year 2023.

Dear Honored Shareholders:

The year under review was one of many setbacks.In the FY, the Ethiopian economy has been influenced by the COVID-19 pandemic, political instability, increasing inflation, and shortage of foreign currency. In addition, the outbreak of conflict in the northern part of the country has hampered the region's economic activities. The conflict also affected the operation of the banking industry, particularly its effect on our Bank was immense mainly due to the Bank's loss of its employees and customers, the closure of many branches, and the damage of properties in the conflict areas. This in turn impacted its efforts in resource mobilization and loan collections. Moreover, due to the war, after the Subscribers' meeting was held on March 4,2020, it was impossible to hold an ordinary and extraordinary General Meeting in 2021. As a result, it was impossible to listen to the external auditor's report for the 2020/2021FY and to appoint the external auditor for the 2021/2022 FY.

The urgency is clear in daily news reports of inflation, famine, civil protests, and violence. The Tsedey Bank is fully engaged in these challenges, realistic in our assessments, and eager to work on solutions.However, exceptional times call for extraordinary handling. Tsedey Bank proved its crisis resilience in this extremely difficult market environment and generated a satisfactory result for the FY despite all odds. The extensive support that the Bank has provided to its customers, colleagues, and communities throughout the local conflict was a key focus for the Board in the FY.

Dear Honored Shareholders:

The continued business risk caused by the impact of COVID-19, economic volatility, peace and stability issues, fierce competition amongst banks and new industry entrants, and non-bank financial actors could disrupt the market and change the financial sector landscape. Tsedey Bank is committed to focusing on long-term and sustainable business strategies for growth and brand maintenance to remain a key player in the industry and to ensure high shareholder value. Particularly, we are evolving bigger, better, and faster products, with most of our service delivery engendered by innovations. As a result, we are expected to be modern, efficient, competent, and competitive in the coming years.

As a vote of thanks, the Tsedey Bank's Board of Directors takes this opportunity to extend its appreciation to the shareholders of the Bank, customers, NBE, management, employees, and other stakeholders for their valuable contribution to the success of the transformation of the Bank, and we believe the support and trust will remain with us for the years to come.

Thank you,

Gedu Andargachew,
Chairman, Board of Directors.

Chief Executive Officer's Statement

Ato Mekonnen Yelewemwesen
CEO

Dear Esteemed shareholders,

I would like to extend my cordial greetings to you all.

It is an honour and satisfaction for me to present this statement to Tsedey Bank shareholders 1st Regular General Assembly.

To throw light on the content of my statement, it comprises operating environment, overall performance highlights, business and organizational development, future outlook of the bank as well as acknowledgement.

As to brief scanning the global environment, global macroeconomic scenario remained unpredictable in 2021/22 since it was challenged by CVID-19 pandemic, escalating commodity prices, supply bottleneck and inflation. The Russia- Ukraine war, which broke out in the first quarter of the year 2022, was not good for the unsteadily moving economic recovery.

In accordance with the world Economic Situation and prospects (WESP) of 2022 report, geopolitical and economic uncertainties are damaging business confidence and investment. Domestically, despite the multiple challenges, mentioned above, and internal conflict, locust infestation, drought, inflation, shortage of foreign currency, the Ethiopian banking sector has registered a remarkable expansion in terms of the number of participants licensed to join the sector. In a meeting held at Hilton Hotel with CEOs of banks, on 8th August 2022, Ato Frezer Ayalew, Director of Banking Supervision for NBE said the number of banks has increased from 18 to 30.

Tsedey Bank Share Company (S.C.) is one of the newly introduced banks to the sector.
Tsedey has been entering into stiffer competition while the sector is expected to be liberalized to foreign financial service providers.

As to the transformation of ACSI to Tsedey Bank S.C, since April 03/2021, Tsedey Bank S.C. having received the responsibility from the shareholders, has performed the following transformation activities, including reorganizing the bank, staffing, commencement of banking service as well operation.

Dear Esteemed shareholders,

Tsedey Bank Share Company (S.C.) has been transformed from Amhara Credit & Savings

Institution (ACSI), which was initially established and licensed as a microfinance share company in April 1997. With great endeavor, ACSI became one of the largest microfinance institutions (MFIs) in Ethiopia as well as in Sub-Saharan Africa region. With the intention of serving its customers' growing interest in huge loan, ACSI held the first shareholders' general assembly, April 03/2021, and approved the bank's founding document, regulation, and passed decisions on other important issues. The assembly elected the board members, taking the ownership of the share into account. At its establishment, it was announced Tsedey Bank S. C. joined the banking industry with huge paid-up capital of Birr 7.75 billion, which was over the regulator's minimum capital requirement a bank to start business in Ethiopia. Total capital of the Bank reached Birr 11.3 billion. Currently, the Bank's total asset amounted to Birr 45.6 billion.

Having returned the microfinance license to National Bank of Ethiopia, in turn, ACSI received its banking business license on January 28, 2022 as Tsedey Bank. The Bank colorfully declared commencement of full-fledged banking operation on September 20, 2022. In addition, on September 17/2022, the bank also inaugurated its data center, which is thought to facilitate the bank service.

Corporate Governance

Your bank is committed to protect the interest of all stakeholders and the community at large by ensuring transparency in all aspects of the bank affairs.

Regarding corporate governance, your bank is dedicated to do business incompliance with all directives and guidelines of National Bank of Ethiopia. The philosophy of the bank is to ensure transparency and reporting that conforms to the provisions of bank regulations and all other applicable laws, rules, regulations and guidelines.

The Board of Directors, which carries out its functions on behalf of shareholders, is entrusted with the responsibilities of providing overall guidance and policy directions to the Bank management. The board oversees if the management is undertaking its duties in line with set policies, approves plans and budgets, without actually intervening in the day-to-day activities of the management.

The management, comprising the Chief Executive Officer (CEO), six Chief Officers and16 Directors, have been engaged in aggressively organizing of the bank. We strived to significantly scale up business, markedly expand service /branch outlets, and continued to invest in various construction projects. Our service reached the community by expansion of our bank branch network to 148 and overall branches to 490 by the end of June 2022, which in turn, enabled us to grow our customer base to 12.4 million, and total staff of over 12,270.

Tsedey Bank S.C. is providing composite service i.e. microfinance and conventional banking services (including interest free banking services) to both domestic and international banking businesses. The Bank also plans to further expand the banking and microfinance services using its widely networked branches.

The Bank has recently become among the top Ethiopia banks that own sophisticated data centre which is the lifeblood of the banking industry.

Tsedey Bank S.C has customer-oriented and inclusive service provision culture. It promotes customer services excellence, and gives special attention to the worthiness of the services to the customers and the community, at large.

Achievements, requiring great courage, have been recorded in operational performance of the bank. The Bank's resource mobilization efforts have exhibited a net deposit over 24 billion as of June 30/2022. We regret a good number of our branches were not operational for a sizeable period of the fiscal year as the consequence of the war in the northern part of the country. We were, however, successful in getting these branches renovated their sustained damages in the shortest possible time and resume business.

Dear Esteemed shareholders,

Tsedey Bank is at the verge of finalizing its 39 story head office building at the heart of commercial center of Addis Ababa. Till then, the headquarter of the bank has been situated at Leghar, ORDA building, Addis Ababa, Ethiopia. Moreover, nearly half of the existing branches and almost all of the districts of the Bank operate in its own building. In addition to facilitating easy and convenient operations, using its own building has a positive effect of instilling further trust among the local population, thus furthering the ability to collect more deposits.

Dear Esteemed shareholders,

Before I conclude, on behalf of Tsedey Bank I wish to convey my sincere regards and deep gratitude to the valued stakeholders for continued support and trust. You always have been the motivational force and have facilitated us to move ahead and achieve the excellent results despite the numerous challenges.

The challenges and difficulties we faced over the year could not have been overcome without the indispensable role played by all our stakeholders including the regulatory organ (NBE).We are particularly indebted to our Board of Directors whose guidance and support had been so impactful toward our efforts. We would like to say thank you to our customers to whom we would promise to again stay focused on duty and serve them better.

Thank you

Mekonnen Yelewemwesen
Chief Executive Officer

Board of Directors' Report

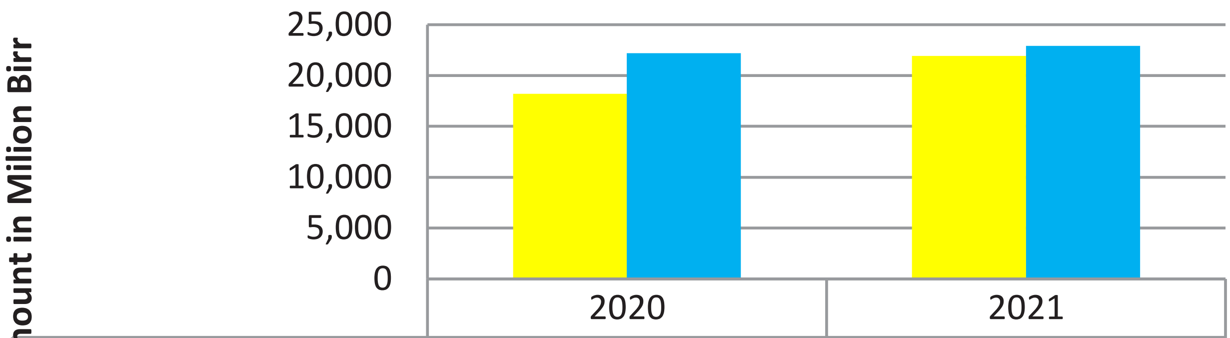
The Board of Directors of Tsedey Bank is pleased to present the annual report and audited financial position of the Bank for the financial year ended June 30, 2021. The first part of the report contains highlights of major performance achievements and the second part details the report of the auditors.

1. Operational Performance

1.1 Deposit and loan performance

The deposit position of Tsedey Bank as of June 30, 2021 reached Birr 21.8 billion. The overall deposit position of the Bank has grown by 20 percent (or Birr 3.7 billion) from its June 30, 2020 record. The total outstanding loan as of June 30, 2021 reached Birr 22.9 billion, growing by 3 percent as compared to the balance in the preceding year (Figure 1).

Figure 1, Deposit and loan Performance



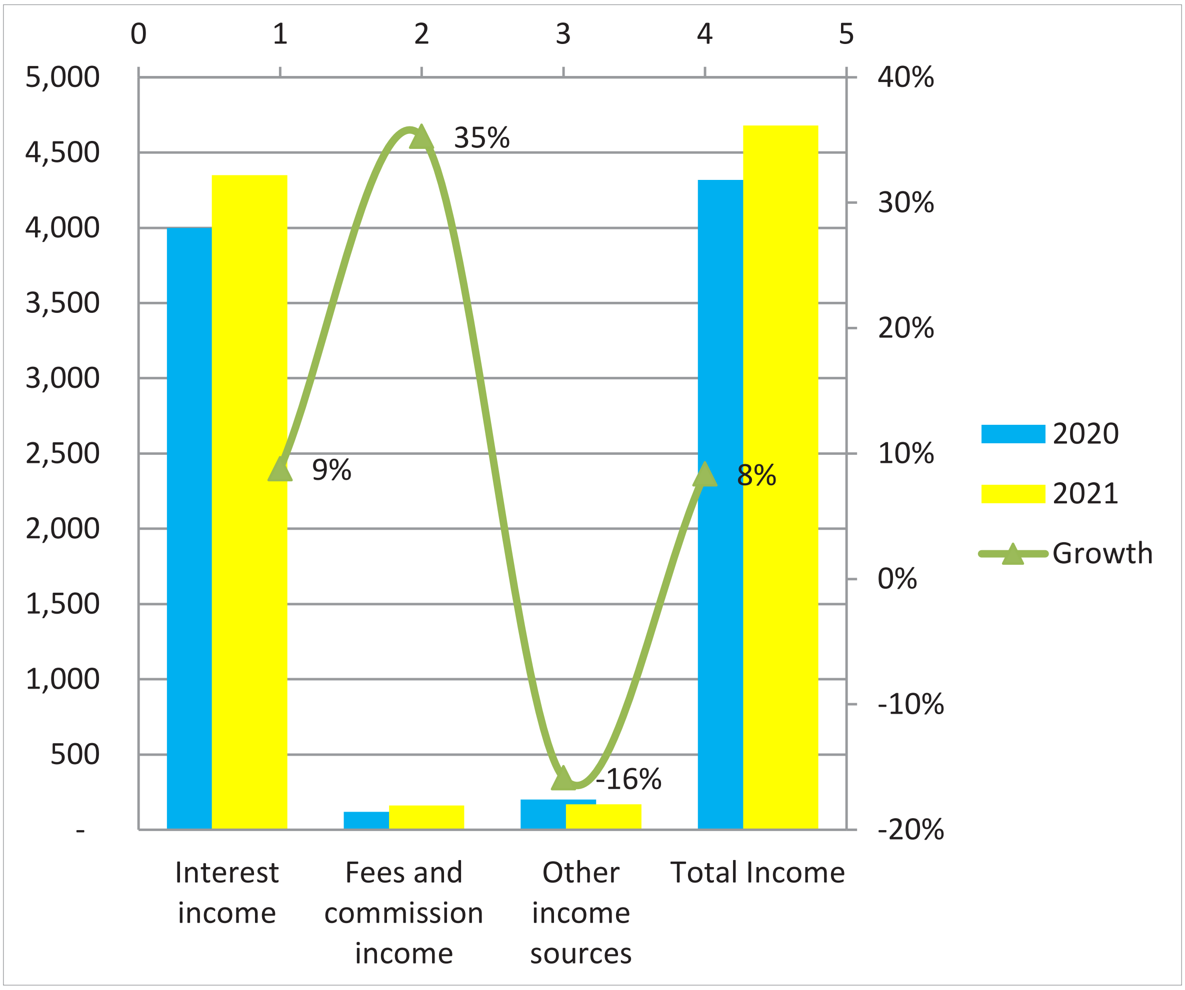
	2020	2021
Total Deposit (Position)	18,208	21764
Loans and advances to customers - net	22,219	22,899

1.2 Financial Performance

1.2.1 Income

Tsedey Bank has generated total income of Birr 4.7 billion in 2020/2021, which is 9 percent above the previous year's total income. The main source of income is the loan portfolio in the form of interest and commission income, representing above 96 percent of the total income of the Bank (Figure-2)

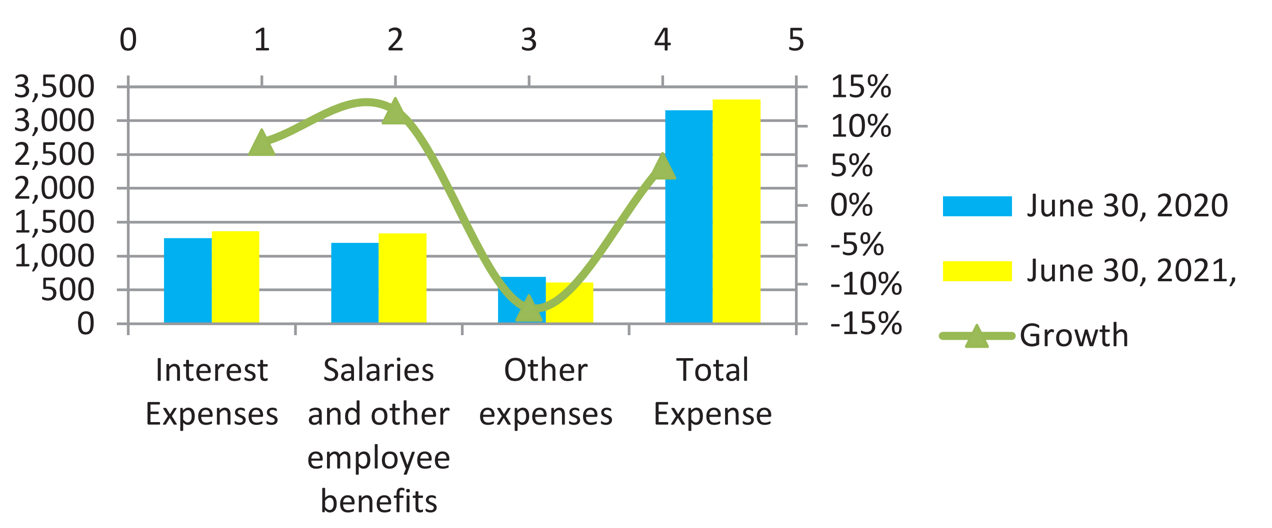
Figure 2: Total Income growth by category (in million Birr)



1.2.2 Expenses

Tsedey Bank has incurred total expense of Birr 3.3 billion during 2020/2021. As major expense components, interest expense and salaries and other benefit expense together represented 80 percent of the total expenses and each representing an equivalent proportion of 41 percent and 40 percent of the total expenses of the Bank, respectively. The Bank's total expense, interest expense, salary and benefit expenses, and other expenses grew by 5 percent, 8 percent, 12 percent, and 13 percent as compared to the record in the previous year (2019/2020), respectively.

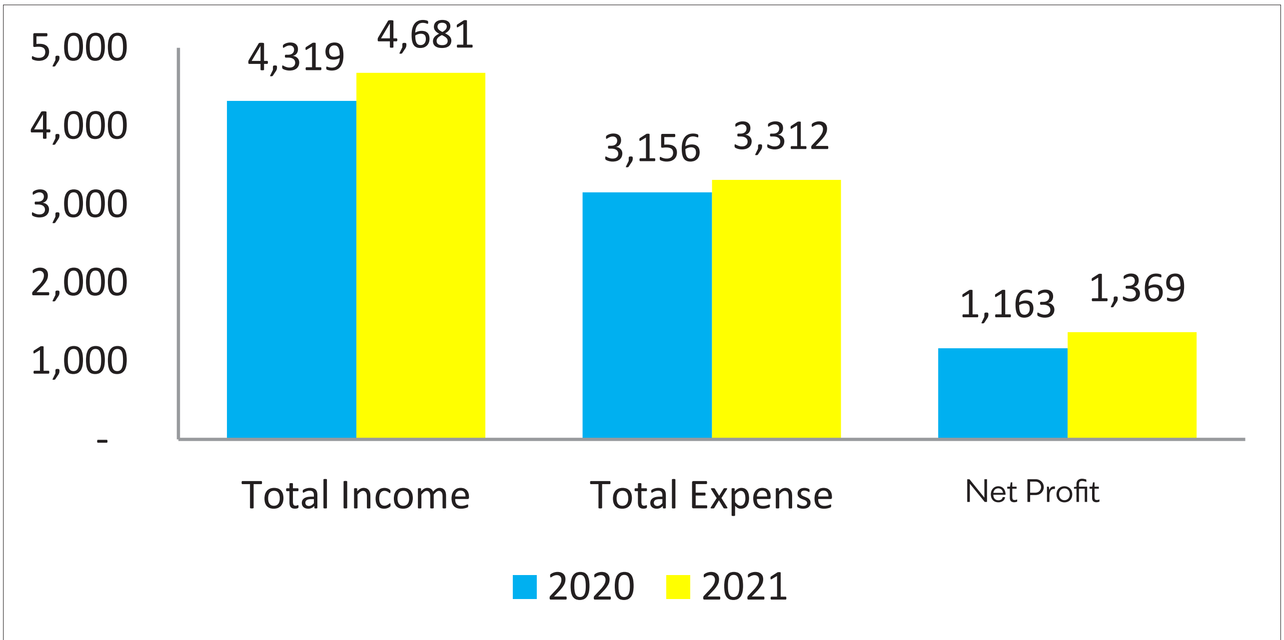
Figure 3: Total Expenses (amount in Million Birr)



1.2.3 Net Profit

Tsedey Bank has earned total net profit of Birr 1.4 billion, accomplishing 19 percent above the profit amount recorded last year, June30, 2020.

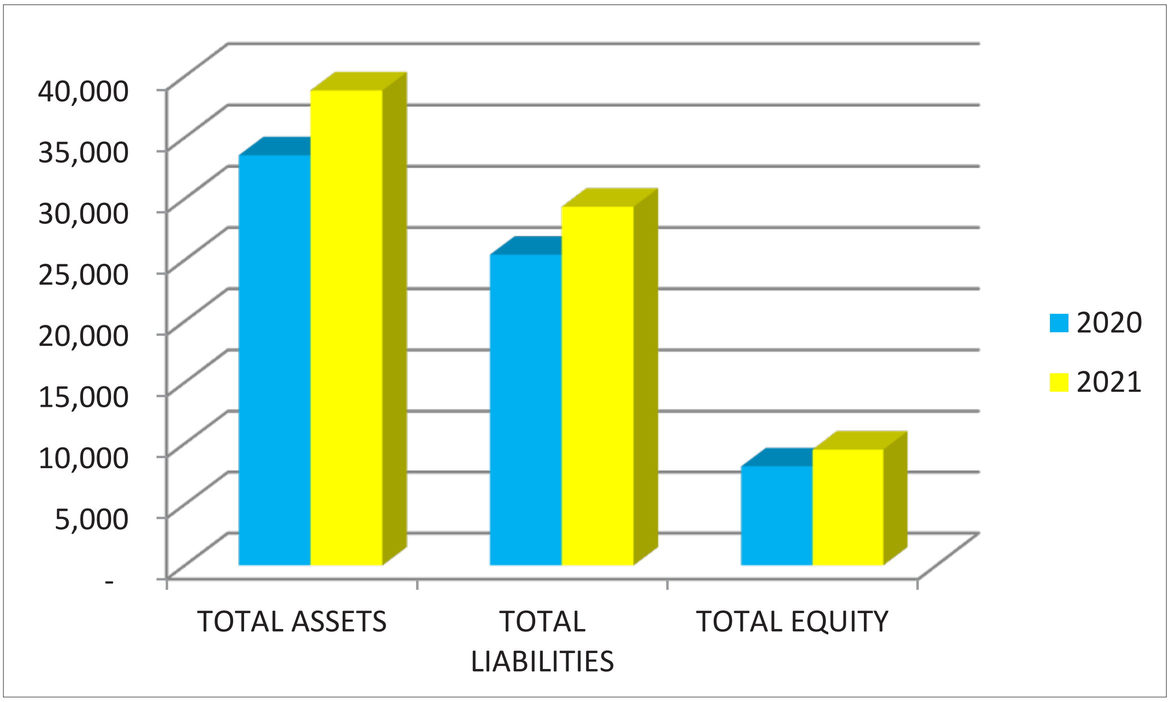
Figure 4: Net Profit (in Million Birr)



1.2.4 Financial Position

The Bank's total asset has reached Birr 38.8 billion and total equity Birr 9.5 billion. The Bank currently has above the minimum capital adequacy ratio set by National Bank of Ethiopia and has maintained the minimum statutory liquidity requirement.

Figure 5: Financial Position (in Million Birr)



1.2.5 Development Impact

Tsedey Bank has widely networked branches in Amhara Regional State. The total number of branches as of June 2021 reached 471. The Bank has been committed in supporting the development efforts of the Amhara Region by providing credit, savings, other financial services, targeting both rural and urban people. The Bank has more than one million active borrowers with a total customer base of 11 million.

The Bank's outreach goes beyond a mere number, covering the poorest of the poor, all areas including marginalized and geographically remote locations, addressing most of the financial service needs of economic sectors.

2. Non-Financial and Administrative Issues

2.1 Human Resources and Information Systems

Tsedey Bank has a total of about 12,000 employees; more than 95% of which are at branch level, having direct contacts with clients.

The Bank has one of a well-established financial management system. The Bank has automated its operations. Currently, the Bank has upgraded its Core banking Software (CBS), to improve its risk management capacity and additional efforts towards diversifying operations and financial services/products.

2.2 Construction Projects

Tsedey Bank is on the verge of finalizing its 39 story Head Office building at the heart of commercial center of Addis Ababa. Moreover, nearly half of the existing branches and almost all of the districts of the bank operate with own building. There are also additional offices currently undergoing. The buildings, apart from cost saving and facilitating easy and convenient operations, also have a positive effect of instilling further trust among the local population; thus furthering the ability to collect more deposits.

Tsedey Bank has recently finalized its Modern Data Center construction project (with Disaster Recovery) and has become among the top banks in Ethiopia that constructed their data center with the latest technology. The data centre is currently helping the Bank to further enhance the quality of the banking services, particularly in implementing different digital banking initiatives.

2.3 Risk Management and Compliance

The Bank has been able to prepare a comprehensive Risk Management Program in-line with the NBE's guideline. The framework identifies the risk profile of the Bank and areas of new considerations for effective risk management/internal control systems. The risk management framework document is also tied with an action plan that correctly identifies the timeline and responsible person for each activity to be implemented.

The board risk subcommittee and ALCO (Asset and Liability Management Committee) both meet regularly. These structures investigate and analyze risks and suggest risk mitigation mechanisms.

2.4 Corporate Social Responsibility

Tsedey Bank is an active member of the communities through granting financial supports to community emergency events and development initiatives. During the reporting period, the Bank has provided various financial supports such as to people displaced due to the recent armed conflicts in the country, among many others.

In addition, the Bank also provides scholarship opportunities to disadvantaged girls for schooling, constructs schools to marginalized communities, and finances athletics club established with the name of the Bank.

3. The Way Forward

Tsedey Bank's past operations showed that it has been successful in many aspects of the microfinance performance. As of June 2020/2021, the Bank's total asset and capital reached Birr 38.9 billion and Birr 9.5 billion, respectively. The performance status has showed further improvement in 2021/2022. As of June 30, 2022, the Bank's total asset and total capital reached Birr 46 billion and Birr 11 billion, respectively.

Tsedey Bank's customer base has also become diverse requiring the development of additional services and products; some of them requiring a provision of full-fledged banking services. Given the huge unmet demand for different types of financial services prevailing in the country, the Bank is now stretching its capacity, among other ways, through transforming itself into full-fledged commercial bank uniquely embedding sustainable microfinance services.

In achieving its plan to become a leading bank in Ethiopia as well as in Africa, Tsedey Bank has now identified three strategic themes for proper implementation: operational excellence, digital transformation, and business growth. The strategic themes aim at achieving high performance results in generation of sustained profit, and in overall company growth in deposits, loan and other financial services. The strategic objectives are pursued to be realized in the coming five years.

Photo gallery

Tsedey Bank Banking Service commencement event, Addis Ababa, Sept. 20/2022

Board members & CEOs waiting for guests

Tsedey Bank Banking Service commencement

Tsedey Bank Board Chairman, Ato Gedu Andargachew, making a Statement

Ato Mekonnen Yelewemwesen ,CEO, speaking,

Dr Yilkal Kefale, Amhara Regional State President , making a Statement

Dr Yinager Dessie , Governor of National Bank of Ethiopia, speaking

Tsedey Bank Data Center Inauguration,Bahir Dar, Sept. 17/2022

Ato Mekonnen Yelewemwesen,
Chief Executive Officer of Tsedey Bank, speaking

Ato Temesgen G/ Egziabher,
Chief Information Officer, speaking

Audiences of the event

The Data Center

Tsedey Bank Establishment Shareholders' General Assembly ,Bahir Dar,April 3/2021


Board Chairman of Tsedey Bank Speaking at the event

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TSEDEY BANK S/C

Auditor’s Report
2020/21

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)
COMPANY'S INFORMATION

Directors (As of 30 June , 2020)			Appointment date
1.	Ato Gedu Andargachew	Chairperson, BOD	16 July, 2017
2.	Ato Tadess Melash	Director	16 July, 2017
3.	Ato Abate Girma	Director	16 July, 2017
4.	W/ro Selamawit Alemayehu	Director	16 July, 2017
5.	Ato Eshetie Gelaw	Director	16 July, 2017
6.	Ato Getachew Jember	Director	16 July, 2017

Senior Management

1.	Ato Mekonnen Yelewemwessen	Chief Executive Officer	10 November, 2001
2.	Ato Gashaw Workneh	Dupty Chief Executive Officer	27 March, 2005
3.	Ato Agazie Getahun	Dupty Chief Executive Officer	26 April, 2010
4.	Ato Tewabe Ayshishem	Dupty Chief Executive Officer	27 February, 2014
5.	Ato Temesgen G/Egziabher	Dupty Chief Executive Officer	1 March, 2016

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

COMPANY'S INFORMATION - CONTINUED

License No.	NBE-MF1/001/97
Registration No.	ባህ/ንማ-1-35/89 Bureau of Trade & Industry Amhara National Regional State Bahir Dar
Registered Office	AMHARA National Regional State P.O.Box 417 Bahir Dar
Bankers	Commercial Bank of Ethiopia (CBE) P.O.Box 255 Addis Ababa Ethiopia AWASH International Bank S.C. P.O.Box 12638 Addis Ababa Ethiopia WEGAGEN Bank S.C. P.O.Box 1018 Addis Ababa Ethiopia BERHAN International Bank S.C. P.O.Box 387 Code 1110 Addis Ababa Ethiopia ABAY Bank S.C P.O.Box 5787 Addis Ababa Ethiopia DASHEN Bank S.C P.O.Box Addis Ababa Ethiopia Development Bank of Ethiopia (DBE) Addis Ababa Ethiopia
Independent auditor	Ermias Negussie Abebe Certified Audit Firm (Eth.) Chartered Certified Accountants (ACCA) P.O.Box11007 Addis Ababa Ethiopia

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የተመሰከረለት የኦዲት ድርጅት (ኢትዮ.)

Ermias Negussie Abebe
Certified Audit Firm (Eth.)

Chartered Certified Accountant (ACCA)
የተረጋገጠለት እና የተፈቀደለት የሂሳብ አዋቂ

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

We have audited the accompanying financial statements of AMHARA Credit and Savings Institutions S.C. (ACSI) which comprise the Statement of Financial Position as at 30th June, 2021 and the related Statement of Financial Performance and its Cash Flows for the year ended 30thJune, 2021 and a summary of significant accounting policies and other explanatory notes.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the Financial Position of AMHARA Credit and Savings Institutions S.C. (ACSI) as at 30th June, 2021 and of its Financial Performances, its Cash Flows and its Change in Equity for the year ended 30th June, 2021 in accordance with the International Financial Reporting Standards (IFRS).

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

Key Audit Matters

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

Independent auditors' report - continued

Responsibilities of Management and those Charged with Governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the company and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.
In preparing the financial statements management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis for accounting unless management either intends to liquidate the company or to close operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditors Responsibility for the Audit of the financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We have no comments to make on the reports of the Board of Directors of the company so far as it related to these financial statements and pursuant to Article 349 Sub-article 2 of the Commercial Code of Ethiopia 2021 and we recommend the approval of the financial statements.

Ermias Negussie Abebe
Certified Audit Firm (Eth.)

Addis Ababa, Ethiopia
13 December, 2022

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

STATEMENT OF FINANCIAL POSITION

30th June, 2021

Currency: Birr

	Notes	30/06/2021	30/06/2020
ASSETS			
Cash and cash equivalents	5	11,605,530,844	7,955,192,143
Other assets and pre-payments	6	1,563,237,301	1,300,104,334
Loans and advances to customers - net	7	22,899,243,830	22,219,065,099
Property, plant and equipment	8	1,814,832,676	1,267,016,992
Intangible assets - net	9	1,095,594	1,687,121
Right of use asset	10	27,603,287	22,481,042
Financial assets at amortized cost (2018 loans and receivables)	11	30,000,000	25,000,000
Financial assets at fair value through OCI (2018 AFS)	11	934,819,154	746,971,876
TOTAL ASSETS		**38,876,362,686**	**33,537,518,607**
LIABILITIES			
Deposit from customers	12	21,764,502,730	18,207,770,657
Borrowing	13	1,332,235,991	1,353,655,033
Employee benefits obligations	14	128,648,363	132,097,068
Lease obligations	15	20,554,692	15,350,707
Other liabilities	16	6,135,586,412	5,711,963,605
TOTAL LIABILITIES		**29,381,528,188**	**25,420,837,070**
EQUITY			
Share capital	17	7,749,050,000	1,000,000,000
Donated equity		190,663,077	190,663,077
Legal reserve	18	519,800,266	176,964,238
General reserve		4,222	-
Retained earnings	19	1,035,316,930	6,749,054,222
TOTAL EQUITY		**9,494,834,495**	**8,116,681,537**
TOTAL LIABILITIES AND EQUITY		**38,876,362,683**	**33,537,518,607**

The accompanying notes as set out on pages from 14 to 90 are an integral part of these financial statements.

The financial statements on pages 9 to 12 were approved and authorized for issue by the board of directors on 16 December, 2022 and were signed on its behalf by:

Gedu Andargachew
Board of Directors

Mekonnen Yelewmwessen
Chief Executive Officer (CEO)

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

At and for the year ended 30th June, 2021

Currency: Birr

	Notes	30/06/2021	30/06/2020
Interest income	22	4,350,272,623	3,998,402,543
Interest expense	23	(1,369,779,164)	(1,266,479,916)
Net interest income before impairment		2,980,493,459	2,731,922,627
Less: loan impairment charges	7.2	(384,673,946)	(541,177,521)
Net interest income		2,595,819,513	2,190,745,106
Fees and commission income	24	160,911,867	118,767,506
Net fees and commission income		160,911,867	118,767,506
Other operating income	25	169,523,727	202,074,535
Net operating income		2,926,255,107	2,511,587,147
Expenses			
Salaries and other employee benefits	26	1,356,754,526	1,193,559,971
General and administrative	27	146,749,458	126,856,705
Depreciation on property, plant and equipment	28	36,481,802	23,981,301
Amortization of intangible asset	29	7,222,095	3,521,402
Impairment on other assets	6.4	7,703,063	-
		(1,554,910,944)	(1,347,919,379)
Net profit before business income tax		1,371,344,113	1,163,667,768
Provision for business income tax		-	-
Profit for the year after business income tax	19	1,371,344,113	1,163,667,768
Other comprehensive income			
Change in equity investment at FVOCI	11.2	23,703,827	10,627,791
Total comprehensive income for the year		1,395,047,940	1,174,295,559

The accompanying notes as set out on pages from 14 to 90 are an integral part of these financial statements.

The financial statements on pages 9 to 12 were approved and authorized for issue by the board of directors on 16 December, 2022 and were signed on its behalf by:

Gedu Andargachew	Mekonnen Yelewmwessen
Board of Directors	Chief Executive Officer (CEO)

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

STATEMENT OF CASH FLOWS

At and for the year ended 30th June, 2021

Currency: Birr

	Notes	30/06/2021	30/06/2020
Net profit before business income tax		1,371,344,113	1,163,667,768
Adjustments for non-cash items:			
Impairment on other assets	6	7,703,063	(2,315,817)
Loan impairment charges	7.2	384,673,946	541,177,521
Depreciation of property, plant & equipment	8	35,208,125	23,320,838
Depreciation re-classification	8	1,273,677	660,463
Amortization - intangible assets	9	591,527	433,770
Amortization - right to use of assets	10	6,630,568	3,087,632
Fair value adjustment on equity investment	11	23,703,827	10,627,795
Adjustment in respect of prior year	19	(16,894,982)	(64,334,573)
		1,814,233,864	1,676,325,397
Changes in working capital			
Decrease/(increase) in loans and advances		(1,064,852,677)	1,911,201,040
Decrease/(increase) in other assets & pre-payment		(270,836,027)	(52,045,173)
Increase/(Decrease) in customer deposits		3,556,732,073	(633,719,251)
Increase in lease obligations		6,608,804	6,202,181
Increase/(Decrease) in employee benefits		(3,448,705)	18,445,061
Increase/Decrease) in other liabilities		423,622,807	389,392,453
Net change in working capital		2,647,826,275	1,639,476,311
Net cash (outflow)/inflow from operating activities		4,462,060,139	3,315,801,708
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	(555,230,788)	(313,760,729)
Disposal of property, plant & equipment	8	72,196	10,163,882
Re-classification of property, plant & equipment	8	(29,138,894)	(8,782,244)
Acquisition of intangible assets		-	(1,038,798)
Acquisition of right to use	10	(11,752,812)	(13,250,456)
Acquisition of investment securities	11	(192,847,278)	(231,489,354)
Net cash (outflow)/inflow from investing activities		(788,897,576)	(558,157,699)
Cash flows from financing activities			
Additional capital contribution		-	
Proceeds from borrowing		-	49,382,949
Settlement of borrowing		(21,419,042)	
Settlement of lease obligations	15	(1,404,819)	(1,445,309)
Net cash (outflow)/inflow from financing activities		(22,823,861)	47,937,640
Net increase/(decrease) in cash and cash equivalents		3,650,338,702	2,805,581,649
Cash and cash equivalents at the beginning of the year	5	7,955,192,143	5,149,610,494
Cash and cash equivalents at the end of the year	5	11,605,530,845	7,955,192,143

The accompanying notes as set out on pages from 14 to 90 are an integral part of these financial statements.

The financial statements on pages 9 to 12 were approved and authorized for issue by the board of directors on 16 December, 2022 and were signed on its behalf by:

Gedu Andargachew
Board of Directors

Mekonnen Yelewmwessen
Chief Executive Officer (CEO)

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

STATEMENT OF CHANGE IN EQUITY

At and for the year ended 30th June, 2021

Currency: Birr

	Share capital	Donated equity	Legal reserve	General reserve	Retained earning	Total
Balance as at 1st July, 2019	1,000,000,000	190,663,077	118,780,850	-	5,697,276,620	7,006,720,547
Change in equity for the year - 2020						
Profit for the year	-	-	-	-	1,163,667,768	1,163,667,768
Net change in equity investment at FVOCI	-	-	-	-	10,627,795	10,627,795
Transfer to legal reserve	-	-	58,183,388	-	(58,183,388)	-
Prior period adjustment	-	-	-	-	(64,334,573)	(64,334,573)
Balance as of 30 June, 2020	1,000,000,000	190,663,077	176,964,238	-	6,749,054,222	8,116,681,537
Balance as at 1st July, 2020	1,000,000,000	190,663,077	176,964,238	-	6,749,054,222	8,116,681,537
Change in equity for the year - 2021						
Transferred to capital & general reserve	6,749,050,000	-	-	4,222	(6,749,054,222)	-
Profit for the year	-	-	-	-	1,371,344,113	1,371,344,113
Net change in equity investment at FVOCI	-	-	-	-	23,703,827	23,703,827
Transfer to legal reserve	-	-	342,836,028	-	(342,836,028)	-
Prior period adjustment	-	-	-	-	(16,894,982)	(16,894,982)
Balance as of 30 June, 2021	7,749,050,000	190,663,077	519,800,266	4,222	1,035,316,930	9,494,834,495

The accompanying notes as set out on pages from 14 to 90 are an integral part of these financial statements.

The financial statements on pages 9 to 12 were approved and authorized for issue by the board of directors on 16 December, 2022 and were signed on its behalf by:

Gedu Andargachew
Board of Directors

Mekonnen Yelewmwessen
Chief Executive Officer (CEO)

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

NOTES TO THE FINANCIAL STATEMENTS

At and for the year ended 30thJune, 2021

These financial statements are prepared in accordance with Financial Reporting Proclamation No.847/2014 and RegulationNo.332/2014, which requires the company to prepare financial statements based on International Financial Reporting Standards, whether their designation changes or they are replaced, from time to time, following the road map set by the Accounting and Auditing Board of Ethiopia (AABE).

The company's management is responsible for the preparation and fair presentation of these financial statements in conformity with international Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The company is required to 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 regulatory bodies such as AABE and Ethiopian Revenue and Customs Authority (ERCA) to determine whether the company had complied with the required reporting financial reporting framework and the relevant tax proclamations and regulations and directives issued for the implementation. The company's management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards.

The management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss.
The management further accepts responsibility for the maintenance of accounting records that may be relied up on in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the management to indicate that the company will not tremor in a going concern for at least twelve months from the date of this statement.
Signed on behalf of the management by:

Gedu Andargachew Board of Directors	Mekonnen Yelewmwessen Chief Executive Officer (CEO)

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)

NOTES TO THE FINANCIAL STATEMENTS

At and for the year ended 30thJune, 2021

1. General information

AMHARA Credit and Savings Institution S.C. ("ACSI") was established and had undertaken its pilot activities in 1996, and was licensed as a microfinance share company in April 1997.The Company operates in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and the Micro-Financing Business Proclamation No. 626/2009 and Micro-finance Business (Amendment) Proclamation No 1164-2019.

The Company conducts its business under the Law on Microfinance activity and is regulated by the National Bank of Ethiopia ("NBE"). The address of its registered office is as follows:

AMHARA Credit and Savings Institution (ACSI)
Head Office
Tele. +251 58 220 16 52
P O Box 417
Fax +251 58 2201733
Kebele 10
Bahir Dar,Ethiopia

The Institution's principal business activity is deposit mobilization and provides micro and small loans.

2. Basis of preparation

2.1 Statement of compliance

The company prepared a full set of financial statements for the year ended June 30, 2019 in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards and Interpretations (collectively IFRSs).

The financial statements comprise the Statement of Financial Performance and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements.

The financial statements for the period ended 30 June 2019 are the first financial statements the company has prepared in accordance with IFRS.

2.1 Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below. Modified valuation applied for certain financial instrument classifications that shall be measured at fair value.

3. Functional and presentation currency

The financial statements are presented in Ethiopian Birr "Birr".

3.1 Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standard (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Institution's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Institution's financial statements; therefore, present the financial position and results fairly. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

4. Going concern

The financial statements have been prepared on a going concern basis. The management have no doubt that the Institution would remain in existence after 12 months.

5. 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.

6.1 Changes in significant accounting policies, and
6.2 New standards, amendments and interpretations adopted during the year

A number of new standards are effective from 30 June, 2018 but they do not have a material effect on the Institution's financial statements. Due to the transition method chosen by the Institution in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized during the year. Accordingly, the impact on the comparative information is limited to new disclosure requirements

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognized on financial assets;
- additional disclosures related to IFRS 9; and
- additional disclosures related to IFRS 15

Except for changes noted below, the Institution has consistently applied the accounting policies to all periods presented in these financial statements

a. IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue — Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The standard specifies how and when the Institution will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures.

The Institution applied IFRS 15 on 1 July 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognized at the date of initial application as an adjustment to the opening balance of Retained Earning as at 1 July 2018 without restating comparative periods.

The standard provides a single, principles based five step model to be applied to all contracts with customers in recognizing revenue being; identify the contract(s) with a customer, identifying the performance obligation in the contract, determining the transaction price, allocating the transaction price to the performance obligation in the contract; and recognizing revenue when (or as) the entity satisfies a performance obligation.

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more guidance that is prescriptive has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

b. IFRS 9: Financial instruments

The institution has adopted IFRS 9, with effect from July 1, 2018. As permitted by the standard, comparative figures have not been restated and these are presented in accordance with the companies' previous policies. Both the new and the old accounting policies are described below where appropriate.

(i) Recognition and de-recognition

The Institution initially recognizes receivables from customers on the date on which they are originated. All other financial instruments are recognized on the transaction date, which is the date on which the Institution becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Financial instruments, comprising financial assets and financial liabilities, are recognized in the statement of financial position when the institution becomes a party to the contractual provisions of the instrument. the institution derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or where it neither transfers nor retains substantially all of the risks and rewards of ownership and loses control. When control is retained, the institution continues to recognize the financial asset to the extent of its continuing involvement.

Financial assets are also de-recognized when they are written off. Financial assets are written off when there is no reasonable expectation of further recoveries even though there may be enforcement actions ongoing. The institution derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the institution currently has a legally enforceable right to set off the recognized amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Classification and measurement

Policy applicable before July 1, 2018
All financial assets and liabilities are initially recognized at fair value, which is usually the transaction price. Subsequently, measurement depends on their classification as follows:

- **Financial assets at fair value through profit or loss**

Financial assets are classified as at fair value through profit or loss if they are classified as held-for-trading or are designated as such on initial recognition, and are re-measured to fair value at the end of each reporting period. Gains and losses arising from re-measurement are taken to profit or loss, as are transaction costs.

- **Loans and receivables**

Loans and receivables including trade receivables are measured at amortized cost using the effective interest method including a reduction for any impairment losses. Interest income is included in finance income.

- **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the above categories of financial assets and are recognized initially at fair value plus any directly attributable transaction costs. At the end of each reporting period the fair value is premeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the available-for-sale reserve except for the foreign exchange gain or loss on debt instruments which is recognized in finance income or expenses.

When these assets are derecognized or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

Available-for-sale financial assets that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment losses at the end of each reporting period.

Interest income on available-for-sale financial assets is recognized in finance income using the effective interest method. Dividends on available-for-sale equity securities are recognized in finance income when the right to receive dividends has been established.

AMHARA CREDIT AND SAVINGS INSTITUTION S.C. (ACSI)
NOTES TO THE FINANCIAL STATEMENTS
At and for the year ended 30thJune, 2021

Policy applicable before and after July 1, 2018

- **Financial liabilities at amortized cost**

Financial liabilities, except those designated as at FVPL, are stated at amortized cost using the effective interest method. Interest is included in finance expenses unless capitalized into property, plant and equipment.

- **Financial liabilities designated as at FVPL**

the institution has irrevocably designated certain financial liabilities as at FVPL on initial recognition because they are managed and their performance is evaluated on a fair value basis and information is provided internally on that basis to the institution's key management personnel.

IFRS 9 classification 30th June 2021	Notes	Mandatorily designated at FVTPL	Other financial assets and liabilities at amortized cost	Total carrying amount
Financial assets				
Cash and bank balances	5	-	11,605,530,844	11,605,530,844
Receivables due from customers	7	-	22,899,243,830	22,899,243,830
Total financial assets			34,504,774,674	34,504,774,674
Financial liabilities				
Deposit from customers	12	-	21,964,502,730	21,964,502,730
Borrowings	13	-	1,332,235,991	1,332,235,991
Total financial liabilities		-	23,096,738,721	23,096,738,721

6.2 New standards, amendments and interpretations issued but not adopted

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). Of those standards that are not yet effective, IFRS 16 and amendments to IAS 1 and IAS 8 are expected to have effect on the Institutions' financial statements in the period of initial application which the Institution is yet to assess their impact.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 16- Lease	1-Jan-19
Amendments to IAS 1 and IAS 8 Definition of Material	1-Jan-20
Amendments to references to the Conceptual Framework in IFRS Standards	1-Jan-20
Annual improvements cycle (2015-2017)	1-Jan-20

IFRS 16: Lease

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
Annual improvement cycle (2015 – 2017) – various standards

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: - If a party maintains (or obtains) joint control, then the previously held interest is not re-measured - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party re-measures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

3.2 Recognition of income and expenses

Policy applicable after 1 July 2018

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

The Institution, earns income from interest on loans given for Agricultural, consumption and other small individual financings. Charges and fees collected from various services rendered to clients like registration fee, loan application acceptance charges and others.

i. Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the institution estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1stJuly, 2018).

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit- impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expenses calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets measured at amortized cost;
- interest on financial liabilities measured at amortized cost

Policy applicable before 1stJuly, 2018

Effective interest rate

Interest income and expense were recognized in profit or loss using the effective interest method. The effective interest rate is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

i. Dividend Income

Dividends are recorded in equity in the period in which they are declared. Any dividend declared after the end of the reporting period and before the financial statements is authorized for issue, are disclosed in the subsequent events note.

ii. Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. 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. Commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of bonds, shares or other securities are recognized on completion of the underlying transaction. Service fees are recognized based on the applicable service contracts, usually on a time- apportion ate basis. Performance-linked fees or fee components are recognized when the performance criteria are fulfilled.

3.3 Financial assets and liabilities

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

i. Recognition and initial measurement

Policy applicable prior to 1stJuly, 2018

The Institution initially recognizes receivables from customers on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Institution becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Financial assets

The Institution classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The Institution determines the classification of its financial assets at initial recognition. The Institution uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Institution as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Institution designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis Financial instruments included in this category are recognized initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in 'Net gains on financial instruments designated at fair value through profit or loss'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Institution upon initial recognition designates as at fair value through profit or loss; those that the institution upon initial recognition designates as available-for-sale.

Loans and receivables are initially recognized at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortized cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income and cumulated in a separate reserve in equity, fair value reserve, until the financial asset is derecognized. However, interest is calculated using the effective interest method

Financial liabilities

The Institution's holding in financial liabilities represents mainly deposits from customers, long term liabilities and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

ii. Classification

Policy applicable from 1stJuly, 2018

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or Fair Value through Profit or Loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI

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

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

On initial recognition of an equity investment that is not held for trading, the Institution may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

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

Business model assessment

The Institution makes 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 Institution'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;

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are 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.

Assessment of whether contractual cash flows are solely payments of principal and interest For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as 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 Institution 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 Institution considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Institution'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).

The Institution holds a portfolio of long-term fixed-rate loans for which the Institution has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Institution has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Institution that are secured by collateral of the borrower limit the Institution's claim to cash flows of the underlying collateral (non-recourse loans). The Institution applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Institution typically considers the following information when making this judgment:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special purpose entity;
- the Institution's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Institution will benefit from any upside from the underlying assets.

Contractually linked instruments

The Institution has some investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the
- pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

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

Financial liabilities

The Institution classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL

iii. De-recognition

Policy applicable from 1 July 2018

Financial assets

The Institution derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Institution neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de-recognized) 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 is recognized in profit or loss. From 1 July 2018 any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Institution is recognized as a separate asset or liability.

The Institution enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, because the Institution retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Institution neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Institution continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Institution retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the de-recognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee Is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Institution derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Policy applicable prior to 1 July 2018

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Institution tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition). Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

iv. Modifications of financial assets and financial liabilities

Policy applicable from 1 July 2018

Financial assets

If the terms of a financial asset are modified, then the Institution evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

If the terms of a financial asset are modified, then the Institution evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Institution plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in de-recognition of the financial asset, then the Institution first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss.

For floating—rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

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

Financial liabilities

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

If the modification of a financial liability is not accounted for as de-recognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable prior to 1 July 2018

Financial assets

If the terms of a financial asset were modified, then the Institution evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognized and a new financial asset was recognized at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Institution derecognized a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognized at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognized in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability. If the modification of a financial liability was not accounted for as de-recognition, then any costs and fees incurred were recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Fair value measurement

Policy applicable prior from 1 July 2018

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in it absence, the most advantageous market to which the Institution has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Institution measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Institution uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price- i.e. the fair value of the consideration given or received. if the Institution determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Institution measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Institution on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio level adjustments e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Institution recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable prior to 1 July 2018

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Nairobi Securities Exchange, Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments. The Institution uses widely recognized valuation models for determining fair values of financial instruments.

V. Impairment Policy

Applicable from 1 July, 2018

The Institution recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Institution measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL. The Institution's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

  The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life time expected credit loss), unless there has been no significant increase in credit risk since origination.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

Credit-impaired financial assets

At each reporting date, the Institution assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is '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 Institution on terms that the Institution would not consider otherwise;
- it is becoming probable that the borrower will enter Institution bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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Presentation of allowance for ECL in the statement of financial position

- Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Institution cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Institution presents a combined

  loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- 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 is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Institution 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 is carried out at the individual asset level.

Recoveries of amounts previously written off are 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 Institution's procedures for recovery of amounts due.

Non-integral financial guarantee contracts

The Institution assesses 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. The factors that the Institution considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's Bank.

If the Institution 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 is treated as a transaction cost of acquiring it. The Institution considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Institution determines that the guarantee is not an integral element of the debt instrument, then it recognizes an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognized only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognized in 'other assets'. The Institution presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Policy applicable prior to 1 July 2018

Objective evidence of impairment

At each reporting date, the Institution assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a Bank of financial assets was `impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a loan that was overdue for 90 days or more was considered impaired.
Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Institution on terms that the Institution would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;

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- the disappearance of an active market for a security; or
- observable data relating to a Bank of assets, such as adverse changes in the payment status of borrowers or issuers in the Institution, or economic conditions that correlated with defaults in the Institution.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Institution considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Institution considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

In making an assessment of whether an investment in sovereign debt was impaired, the Institution considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms.

This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfill the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgments about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgment to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

Measurement of impairment

Impairment losses on assets measured at amortized cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

- For assets measured at amortized cost: If an event occurring after the impairment was recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognized through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognized in OCI

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Presentation

Impairment losses were recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognized through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Institution write-off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Institution Credit determined that there was no realistic prospect of recovery.

Designation at fair value through profit or loss financial assets

At initial recognition, the Institution has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise. Before 1 July 2018, the Institution also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Institution has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or
- significantly reduces an accounting mismatch that would otherwise arise.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is 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.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other tuitions, demand deposits with third party merchants, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the institution's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

3.5 Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets including for self-constructed assets, the cost of materials, direct labor, the initial estimate, where appropriate, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment and investment property, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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Asset class	Useful life (years)
Building	50
Motor Vehicle	10
Furniture and Fittings	10 - 20
Office equipment	5 - 20
Computer equipment and accessories	10

3.6 Intangible

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the income statement. Amortization is provided on the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives. As follows:

Asset Class	Useful life (years)
Software	6

3.7 Investment Property

Property that is held for long-term rental yields or for capital appreciation or both, are classified as investment properties.
Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to The Institution and the cost can be reliably measured. This is usually when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The Institution has opted to subsequently carry investment property at cost and disclose fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, The Institution uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional values who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to The Institution and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Investment properties are derecognized when they have been disposed. Where The Institution disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of changes in net assets available for benefit.

3.8 Other Assets

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

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

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

3.9 Measurement and recognition of leases as a lessee

At lease commencement date, the company recognizes right-of-use asset and a lease liability on the statement of Financial Position. 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 before the commencement date. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The company also assesses the right-of-use asset for impairment when such indicators exist.

The lease liability is measured at the present value of lease payments discounted using the interest rate implication the lease if that rate is readily available or the company's incremental borrowing rate. The lease liability is measured at amortized cost using effective interest rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in substance fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss if the right-of-use asset is already reduced to zero.

The company has elected not to recognize right of use assets and lease liabilities for short term leases less than twelve months or low value an asset which is in accordance with the standard. On the statement of financial position, right-of-use assets and lease liabilities are separately presented. Leases that do not transfer substantially all the risks and rewards of ownership to the institution are operating lease.

Payments made under the operating leases are charged to profit or loss in equal installments over the accounting periods covering the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3.10 Employee benefits

Salaries, profit-sharing and bonus payments, paid annual leave and contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

3.11 Share capital

Share capital is the total of the Institution´s shares that are held by shareholders. Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

3.12 Government Grant

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

3.13 Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that non-financial assets, including property, plant and equipment, long-term leasehold prepayments, intangible assets and other long-term assets may be impaired.

3.14 Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the institution has a legal or where it is not probable that an outflow of economic benefits will be required, or the amount cannot be reliably estimated, disclosure is made of the contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Provisions are recognized for liabilities of uncertain timing or amount when the institution has a legal or constructive obligation arising because of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be reliably estimated, disclosure is made of the contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.15 Legal reserve

In accordance with the Directive SBB/4/95 issued by the National Bank of Ethiopia (NBE), every bank shall transfer annually 25% of its annual net profit to its legal reserve account until such account equals its capital.

4. Accounting judgments and estimates

(a) Accounting judgments

(i) Revenue recognition

To determine the satisfaction of performance obligations the institution applies the following judgments:

- Where revenue is recognized over time, the institution primarily uses the output method to measure progress; in limited business units, the input method is adopted when the institution is unable to reasonably measure the outcome of a performance obligation. Judgments applied when using the output method include assessing progress and milestones achieved and determining if that represents the value of goods and/ or services delivered to the customer to date. Judgments applied when using the input method include determining if consumption of the resources relative to the total expected amount faithfully depicts the transfer of control of goods and/or services promised to the customer.
- Where revenue is recognized at a point in time, the institution assesses the transfer of control by reference to the contractual terms and the circumstance of the arrangements including a consideration of past business practice. These include having a legal right to payment, title has passed, the customer has the risks and rewards of ownership, or the customer is using the asset to generate value for themselves.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Revenue recognition

To determine the transaction price and the amounts allocated to performance obligations the institution applies the following estimation:

- Variable consideration is estimated using the most likely amount or expected value based on the nature of the specific consideration and the analysis of relevant contract terms, taking into consideration historical, current and expected information.
- Obligations for returns and refunds are judged based on estimates made from historical information associated with similar products and anticipated rates of claims for the products.
- The collectability of a consideration is estimated at contract inception, based on the institution's assessment on the customer's ability and intention to pay when due. The above estimation is inherent in revenue recognition and revenue may materially change if management's estimation were to change or to be found inaccurate.

(ii) Impairment of trade receivables and contract assets

The credit risk of customers is regularly assessed with a focus on the customer's ability and willingness to pay, reflected by the institution's estimation of the expected credit loss allowance on trade receivables and contract assets. the institution estimates expected credit loss by assessing the loss that will be incurred given customer default based on past payment experience and adjusted by the cash flow expected from collateral or credit risk mitigation received where these are considered to be integral to the asset, and by assessing the probability of default taking into account information specific to the customer as well as pertaining to the country and economic environment in which the customer operates. From January 1, 2019 the estimate also incorporates forward looking data.

Impairment is assessed on an individual basis for trade receivables and contract assets meeting pre-determined criteria, including customers in financial difficulties, and contracts with risk mitigation arrangements or significant financing arrangements etc. Apart from receivables and contract assets that have been assessed and provided for individually, allowances are estimated using provision matrices by management with reference to the customers' credit risk ratings and aging analysis of the remaining trade receivable and contract asset balances. Different provision matrices have been developed by the institution based on different customer groups which indicate different risk characteristics. If the financial condition of customers were to deteriorate or improve, or actual future economic performance is different to the institution's estimates, additional allowances or reversals may be required in future periods.

(iii) Net realizable value of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations at the end of each reporting period.

(iv) Depreciation and amortization

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets with finite useful life are amortized on a straight-line basis over the estimated useful lives. Both the period and method of depreciation and amortization are reviewed annually. The depreciation and amortization expense for future periods is adjusted if there are significant changes, such as operational efficiency or changes in technologies, from previous estimates.

5. Cash and cash equivalents

These are

	30/06/2021	30/06/2020
On hand	268,077,015	301,133,792
At bank	11,337,453,829	7,654,058,350
	11,605,530,844	7,955,192,143

6. Other assets and pre-payments

6.1 These are:

		30/06/2021	30/06/2020
Inventory	(Note 6.3)	24,578,756	25,726,710
Inter-branch accounts		483,875	453,817
Construction advance		322,978,927	517,349,549
Acquired property	(Note 6.6)	22,877,563	20,886,757
Staff receivable		12,924,016	9,540,124
Receivable from individuals		703,537	351,392
Receivable from organizations		398,255,127	177,276,116
Shareholders' account		48,565,709	-
Bond Commission DBE		964,969	949,365
Pre-payments		6,764,028	3,787,321
Interest		139,593,921	154,308,061
Staff loan	(Note 6.5)	542,172,800	370,270,571
Other assets		3,267,635	-
Other receivables		55,762,988	28,158,041
		1,579,893,851	1,309,057,824
Less: allowance for impairment loss			
	(Note 6.4)	(16,656,550)	(8,953,487)
		1,563,237,301	1,300,104,334

6.2 Breakdown of current and non-current portions can be presented

		30/06/2021	30/06/2020
Current portion		1,305,659,569	1,081,036,754
Non-current portion		257,577,732	219,067,580
Total financial assets	(Note 6.1)	1,563,237,301	1,300,104,334

6.3 Inventory

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

		30/06/2021	30/06/2020
Supplies & stationary		19,241,128	19,032,372
Spares & other related items		5,337,628	6,694,338
	(Note 6.1)	24,578,756	25,726,710

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6.4 The movement for impairment loss on other assets and pre-payments is as follow:

		30/06/2021	30/06/2020
Opening balance		8,953,487	11,269,304
Add: current year's provision		7,703,063	(2,315,817)
Ending balance	(Note 6.1)	16,656,550	8,953,487

6.5 The Institution gives loans to its staff members at below market rates of interest. Under IFRS-9, such loans must be recognized at their fair value on the inception date. The fair value is determined on inception date as the present value of all the future cash receipts (installments) from the staff members using the prevailing market rate of interest as the discounting factor. The market rate was determined by reference to what the staff members would have been charged to access a similar loan facility from the same financial market. To this end, to recognize the pre-paid employee benefit on inception date of the loan, the Institution has considered the nature of the loan. The pre-paid employee benefit would be capitalized as an asset and amortized throughout the life of the loan based on the conceptual framework definition of an asset.

6.6 Acquired property represents financial and non-financial assets possessed by the Institution in settlement of overdue loans. The Institutions' 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 then repossessed value or the carrying value of the original secured assets and included in the relevant assets depending on the nature and the Institutions' intention in respect of recovery of these assets.

7 Loans to customers

7.1 The make-up of the loan to customers by type of loan is as follows:

		30/06/2021	30/06/2020
Gross loans to customers			
Agriculture		14,316,031,783	13,437,043,266
Manufacturing		1,181,920,786	967,354,495
Trade		2,536,016,282	2,734,196,470
Transport		267,406,701	367,218,149
Electricity & Water		59,925,936	69,083,764
Building & Construction		887,832,531	972,322,629
Services		4,487,511,891	4,225,611,909
Staff loan		773,142,547	672,105,098
Gross loans to customers		24,509,788,457	23,444,935,780
Less : allowance for impairment losses			
	(Note 7.2)	(1,610,544,627)	(1,225,870,682)
Net loans to customers	(Note 7.3)	22,899,243,830	22,219,065,099

7.2 The movement in the loan impairment allowance account is as follows:

		30/06/2021	30/06/2020
Opening balance		1,225,870,682	684,693,161
Add: current year's provision		384,673,946	541,177,521
Ending balance	(Notes 7.1 & 7.5)	1,610,544,628	1,225,870,682

7.3 The credit quality of the loan to customers is as follows:

		30/06/2021	30/06/2020
Original loan to customers according to the agreement:			
Current and overdue less than 90		22,977,384,198	19,359,093,177
Overdue from 90 to 180 days		395,146,910	2,001,894,261
Overdue from180 to 365 days		256,829,314	1,262,040,118
Overdue above 365 days overdue		880,428,035	821,908,224
		24,509,788,457	23,444,935,780
Less: allowance for impairment losses			
	(Note 7.2)	(1,610,544,627)	(1,225,870,682)
	(Note 7.1)	22,899,243,830	22,219,065,099

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7.4 The loan to customers are collateralized by and with the value as detailed below:

	30/06/2021	30/06/2020
Building	9,943,348,038	15,424,207,803
Vehicle	74,502,039	680,406,894
Compulsory deposit	3,033,924,772	2,757,802,502
Regional Government Guarantee	1,881,714,371	2,016,602,148
	14,933,489,220	20,879,019,347

7.5 The reconciliations of loans to customers according to the agreement and effective interest rate is as follows:

		30/06/2021	30/06/2019
Originated loans to customers according to the agreement		23,698,906,735	22,642,418,760
Add: accrued interest according to the agreement		810,881,722	802,517,020
Gross loans to customers according to the agreement		24,509,788,457	23,444,935,780
Less: allowance for impairment losses	(Note 7.2)	(1,610,544,627)	(1,225,870,682)
Net loans to customers	(Notes 7.3 & 7.6)	22,899,243,830	22,219,065,099

7.6 The breakdown of the loan to customers by current and non-current portion according to the aging analysis is as follows:

		30/06/2021	30/06/2020
Current portion	(Note 30)	13,957,685,056	16,053,018,741
Non-current portion	(Note 30)	8,941,558,774	6,166,046,358
Total loan and advances	(Note 7.5)	22,899,243,830	22,219,065,099

8 Property, Plant and Equipment

These are

Cost	Building	Computers	Motor Vehicles	Equipment	Furniture	Construction in progress	Total
As at 1st July, 2019	457,282,947	71,366,844	111,278,669	47,122,376	16,965,480	382,838,518	1,086,854,834
Add: additions	28,341,499	-	-	-	-	285,419,229	313,760,729
reclassification	-	4,688,233	1,127,856	2,818,113	148,042	-	8,782,244
disposal	(51,106)	(4,625,591)	(2,737,364)	(2,242,721)	(507,100)	-	(10,163,882)
As at 30th June, 2020	485,573,340	71,429,485	109,669,161	47,697,768	16,606,423	668,257,747	1,399,233,925
As at 1st July, 2020	485,573,340	71,429,485	109.669,161	47,697,768	16,606,423	668,257,747	1,399,233,925
Add: additions	41,863,232	3,512,423	5,768,251	2,794,867	-	501,292,015	555,230,788
disposal	-	-	-	-	(72,196)	-	(172,196)
reclassification	14,346,535	651,098	904,412	13,093,334	143,515	-	29,138,894
As at 30th June, 2021	541,783,108	75,593,006	116,341,824	63,585,969	16,677,742	1,169,549,762	1,983,531,411
Depreciation							
As at 1st July, 2018	33,421,048	19,848,245	34,008,688	15,078,517	5,879,133	-	108,235,632
Add: current year's provision	8,869,059	5,036,548	6,911,670	997,675	1,505,886	-	23,320,838
reclassification	- -	295,314	114,690	214,205	36,254	-	660,463
As at 30thJune, 2020	(42,290,108)	(25,180,107)	(41,035,048)	(16,290,398)	(7,421,273)	-	(132,216,933)
As at 1st July, 2020	42,290,108	25,180,107	41,035,048	16,290,398	7,421,273	-	132,216,933
Add: current year's provision	9,339,644	4,384,656	16,175,189	4,719,898	588,738	-	35,208,125
reclassification	747	485,144	190,226	576,476	21,084	-	1,273,677
As at 30th June, 2020	(51,630,499)	(30,049,906)	(57,400,462)	(21,586,773)	(8,031,095)	-	(168,698,735)
Net book values							
As at 30 June, 2021	**490,152,609**	**45,543,100**	**58,941,362**	**41,999,196**	**8,646,647**	**1,169,549,762**	**1,814,832,676**
As at 30 June, 2020	**443,283,232**	**46,249,378**	**68,634,113**	**31,407,370**	**9,185,150**	**668,257,747**	**1,267,016,992**

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9 Intangible assets

9.1 This is of:

		30/06/2021	30/06/2020
Cost			
Opening balance		3,549,162	2,510,364
Add: current year's addition		-	1,038,798
Ending balance		3,549,162	3,549,162
Amortization			
Opening balance		1,862,041	1,428,271
Add: current year's provision	(Note 28)	591,527	433,770
Ending balance		(2,453,568)	(1,862,041)
Net book values		1,095,594	1,687,121

9.2 AMHARA Credit and Savings Institution S.C. entered into a license agreement with Craft Silicon Ltd. Who owns the intellectual property rights of the Bankers Realm Core Banking System "BRCBS" on 15th May, 2015 for a acquiring a license for its use. As per the conditions of the agreement AMHARA Credit and Savings Institution (License) will have a non-exclusive and non-assignable license to use the software in object code for the minimum duration of ten (10) years. In addition, the licensee acknowledges that any and all of the intellectual property right used, or embodied in, or in connection with, the software are and will remain the sole property of Craft Silicon Ltd. unless the license entered into Maintenance Agreement, it will not be provided with any support upgrade. On entering a Maintenance Agreement the licensor will provide upgrades as indicated in the agreement with a separate service fees. The license fee involved for the service shall be USD 120,000.00. In addition extra branch license of USD 5,000.00 shall be charged as and when the number of branches exceeds the maximum number of 700 branches as agreed between the two parties for the implementation.

9.3 AMHARA Credit and Savings Institution S.C. (the licensee) entered into Annual Maintenance Agreement with Craft Silicon Ltd. (the licensor) on 23rd February, 2015. Based on the conditions, in the agreement the licensee desired to ensure. That the software solution remains in satisfactory and efficient conditions and the licensor agreed to provide maintenance and support services. On provision of the annual maintenance the licensor shall charge 10% of the license value of Br-CBS. All tax liabilities the may entail from this agreement shall be covered by the licensee.

9.4 AMHARA Credit and Savings Institute S.C. signed addendum with Craft Silicon Ltd. On 23rd April, 2020 on the desirous of amending the agreement signed on 23rd February, 2015 regarding the use of Bankers Realem CBS Software Upgrading License agreement. As per the addendum the parties agreed to incorporate Net Core Islamic Banking Application into the Bankers Realem for a total cost of USD 30,000.00 net of taxes. This addendum incorporates all the term and conditions of the Bankers Realem (BR) agreement and constitutes and integral and inseparable part of the BR agreement.

10 Right to use

10.1 The make-up of the account is as follows

		30/06/2021	30/06/2020
Cost			
Opening balance		26,448,547	13,198,090
Add: addition during the year		11,752,812	13,250,456
Ending balance		38,201,359	26,448,546
Amortization			
Opening balance		3,967,504	879,873
Add: current year's provision	(Note 28)	6,630,568	3,087,632
Ending balance		(10,598,072)	(3,967,505)
Net book value		27,603,287	22,481,042

10.2 The company entered an agreement on 27th February, 2015 for a right to use 4,024 M2of land on a lease basis with Addis Ababa City Administration – Land Banking and Transfer Office for a total service value of Br. 13,203,186.64 for a total lease period of 60 years. A 20% advance amounting to Br. 2,640,637.37 was paid upon signing the agreement and the balance Br. 10,562,549.32 shall be paid on or before 26th February, 2046 (20 years) with an installment amount of Br. 352,084.98 and interest at the rate of 9.5% per annum.

11 Investment securities

11.1 Investment securities as at 30 June 2021 and 30 June 2020 comprises the following:

		30/06/2021	30/06/2020
Government Saving Bond	(Note 11.2)	30,000,000	25,000,000
Investments	(Note 11.2)	934,819,154	746,971,877
		964,819,154	771,971,877

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11.2 A breakdown of the investment securities is as follows:

The primary valuation technique adopted by the Institution in undertaking the valuation of the investee companies is the market approach. This is because the financial information available on the investee companies consists of historical audited financial statements.

	30 June 2021		
	Investment Amount		Investment Amount
Government Saving Bond	30,000,000		30,000,000
(Note 11.1)	30,000,000		30,000,000

	30 June 2021		
	Investment Amount	Net change in equity	Balance of FVOCI
ABAY Bank S.C.	141,350,855	31,320,864	172,671,719
ABAY Insurance S.C.	22,408,699	(6,000,037)	16,408,662
ET- Inclusive Finance Technology S.C.	2,739,416	(1,617,000)	1,122,416
	166,498,970	23,703,827	190,202,797
TANA Pulp and Paper S.C.	10,000,000	-	10,000,000
WALIYA Capital Goods Finance Business S.C.	201,052,906	-	201,052,906
ABAY Industry S.C.	325,000,000	-	325,000,000
BAHIR DAR Agro Processing Industry S.C.	194,113,451	-	194,113,451
Ethiopian Inclusive Finance Training & Research Institute (EIFTRI)	400,000	-	400,000
AMHARA Bank S.C.	10,000,000	-	10,000,000
AMHARA Garment Plc.	1,000,000	-	1,000,000
DESSIE Manufacturing of Wood Products Plc.	1,000,000	-	1,000,000
NURO BEZEDIE Management Consultancy Activities Plc.	1,000,000	-	1,000,000
MEDARESHA Economy and Business Consultancy Plc.	1,000,000	-	1,000,000
TANA Endowment	50,000	-	50,000
	744,616,357	-	744,616,357
(Note 11.1)	911,115,327	23,703,827	934,819,154

12 Deposits from customers

12.1These are

		30/06/2021	30/06/2020
Voluntary saving		19,779,389,228	16,338,980,072
Compulsory savings		1,624,252,143	1,540,667,421
Demand deposits		160,667,627	103,935,173
Time deposits		189,837,347	198,383,633
Provident fund		35,868,068	36,478,246
Accrued interest on customer deposit		(25,511,683)	(10,673,888)
	(Note 12.2)	21,764,502,730	18,207,770,657

12.2 Breakdown of borrowings by current and non-current portions can be presented as follows:

		30/06/2021	30/06/2020
Current portion		9,027,108,700	7,553,424,397
Non-current portion		12,737,394,030	10,654,346,260
	(Note 12.1)	21,764,502,730	18,207,770,657

13 Borrowings

13.1 These are

		30/06/2021	30/06/2020
Borrowing		1,332,235,991	1,353,655,033
	(Notes 13.2 & 13.3)	1,332,235,991	1,353,655,033

13.2 Breakdown of borrowings by current and non-current portions can be presented

		30/06/2021	30/06/2020
Current portion		469,310,622	476,855,970
Non-current portion		862,925,369	876,799,063
	(Notes 13.1 & 13.3)	1,332,235,991	1,353,655,033

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13.3 The detail of the borrowings for the purposes project is as follows:

Loan account		30/06/2021	30/06/2020
Development Bank of Ethiopia – COVID 19	(Note 13.4)	181,978,707	-
Development Bank of Ethiopia –IFAD	(Note 13.5)	625,935,818	712,739,543
Development Bank of Ethiopia –IDA	(Note 13.6)	55,575,029	86,596,467
Development Bank of Ethiopia –WEDP	(Note 13.7)	233,802,442	308,903,506
Development Bank of Ethiopia –SME	(Note 13.8)	199,234,057	200,389,769
Interest payable on borrowings	(Notes 13.1 & 13.2)	1,332,235,991	1,353,655,033

13.4 The company entered into a bank loan agreement with Development Bank of Ethiopia for a short-term working capital loan proceeds of Br. 300,000,000.00 on Hamele 27, 2012 (E.C). The loan is released to overcome the shortage of working capital caused by COVID 19. The loan shall be repaid within one year including the grace period in two equal installment amounts until 31st July, 2021 with an interest at the rate of 7% per annum. (Note 13.2)

13.5 Development Bank of Ethiopia/ IFAD
The Institution has entered into a lead subsidiary agreement with the then Ministry of Finance and Economic Development of the Federal Democratic Republic of Ethiopia as the lead program agency for the implementation of the credit fund. The institution entered loan agreements to receive a loan-able fund from the International Fund for Agriculture Development (IFAD) to finance the customer's credit demand. The loan agreements have five-year tenor payable in semi-annual installments with an interest rate of 8% per annum. (Note 13.3)

13.6 Development Bank of Ethiopia/IDA
Development Bank of Ethiopia (DBE) entered into a lead subsidiary agreement with the Ethiopian Government designated by the then Ministry of Finance and Economic Development on 14th September, 2012 to act as a Lead Program Agency for the implementation of Market Development for Renewable Energy and Energy Efficient Product component with the government through a program loan agreement signed on 12th June, 2012 borrowed from the International Development Association (IDA).

The Institution entered into loan agreements amounting to Br. 48,171,500 payable in 8 years commencing 31 January 2017, Birr 50 Million loan agreement payable in 5 years and Birr 26,250,000 loan agreement payable in 5 years commencing 31 January 2018 and 31 July 2019. (Note 13.3)

13.7 Development Bank of Ethiopia/WEDP

Under the financing agreement signed on 4th and 9the of August, 2016 with the government of the Italian Republic, the Ethiopian Government obtained a loan with a principal amount of EURO 15 Million. Whereas, Development Bank of Ethiopia (DBE) entered into a Subsidiary Finance Agreement with the Government of Ethiopia designated by the then Ministry of Finance and Economic Cooperation signed on the 16th December, 2016 to act as implementing agency for component 1(a) of the Women Entrepreneurship Development Project (WEDP) meant for the establishment and operation of credit facility providing access to finance for working capital for qualifying growth-oriented micro and small enterprises owned or partly owned by female entrepreneurs.

On the basis of the Subsidiary Financing Agreement as stated above, the Institute entered into a loan agreement with Development Bank of Ethiopia (DBE) to participate in the Women Entrepreneurship Credit Facility (WECF) under WEDP by signing four round agreements to finance its loan-able fund requirement which the detail of the financial commitments is as follows:

Original Loan amount	Outstanding balance	Date of first instalment	Date of last instalment	Current annual interest rate (%)
111,124,651.00	13,890,570.00	31 January, 2018	31 July, 2021	8%
125,644,828.00	46,992,556.00	31 January, 2019	31 July, 2022	8%
125,802,498.00	47,116,8143.00	01 January, 2019	31 January, 2023	8%
125,802,498.00	125,802,503.00	01 May, 2020	01 May, 2025	8%
488,374,475.00	233,802,442.00	(Note 13.3)		

13.8 Development Bank of Ethiopia /SMECFA

Development Bank of Ethiopia (DBE) entered to a lead subsidiary agreement with Ethiopian Government designed by the then ministry of Finance and Economic Development Cooperation on the 12st day of July, 2016 to act as implementing agency for the implementation of increasing accesses to finance for eligible small and Medium Enterprise in Ethiopia.

The Institution entered into two loan agreements with a total value Br. 26,970,150 payable in four (4) years starting from 31st January, 2019. In addition, the Institution entered into another two loan agreements with a total value of Br. 24,382,114 payable in four (4) years starting from July, 2019. (Note 13.3)

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14 Employee benefits obligation

14.1 These are

		30/06/2021	30/06/2020
Cash indemnity		9,552,397	9,394,245
Severance pay	(Note 14.2)	8,525,912	11,063,818
Annual leave	(Note 14.4)	98,956,029	99,549,355
Pension fund		11,614,025	12,089,650
		128,648,363	132,097,068

14.2 The make-up of accrued severance account is as follows:

		30/06/2021	30/06/2020
Opening balance		11,063,818	7,370,352
Add: provision made during the year		(1,518,430)	5,671,387
		9,545,388	13,041,739
Less: payment made during the year		(1,019,476)	(1,977,921)
Ending balance	(Notes 14.1 & 14.2)	8,525,912	11,063,818

14.3 Severance Payment is computed in line with the Requirement of IAS-19 the need to accrue severance payment liability and the pertinent law of the land. The severance payment is computed by considering the service year of the employee, entitlement for severance payment when it will leave the company in the future, the cumulative service year, the current salary of each employee along with future severance payment estimate. Moreover, attrition rate is also considered for the estimation of severance payment amount to be paid/settled in the next fiscal year.

The management believes that the computation of severance liability is based on the best estimate by considering the previous period's attrition rate and salary of each employee as its benefits outweighed by far from the cost of actuarial valuation. (Note 14.2)

14.4 The make-up of the annual leave payable account is as follows:

Opening balance		99,549,355
Add: additional provision made during the year		426,840
		99,976,195
Less: payment made during the year		(1,020,166)
Ending balance	(Notes 14.1 & 14.5)	98,956,029

14.5 Annual leave provisions are computed in accordance to the pronouncements of the repealed Labour Proclamations 377/2003, 466/2005 494/206 and 632/2009 until the period the mentioned laws are repealed and with the new Labour Proclamation No. 1156/2019. (Note 14.4)

15 Lease obligation

	30/06/2021	30/06/2020
Opening balance	15,350,707	10,593,836
Add: additions during the year	-	4,836,166
financing costs - interest	6,608,804	1,366,014
	21,959,511	16,796,016
Less: payment made during the year	(1,404,819)	(1,445,309)
Ending balance	20,554,692	15,350,707

16 Other liabilities

16.1 These are:

		30/06/2021	30/06/2020
Revolving fund		2,677,069,826	2,677,069,826
Payable to organizations		2,267,332,334	1,754,326,234
Insurance		320,723,143	309,205,032
M-Birr		254,775,665	403,809,847
Bond		113,479,204	158,376,681
Agricultural input - CBE		309,403,541	223,167,603
Taxation	(Note 16.2)	10,401,520	7,726,370
Tax on interest	(Note 16.3)	56,405,249	51,288,063
Unions		18,295,329	16,598,355
Retention		54,693,115	33,727,312
Payable to individuals		13,271,944	10,792,126
Sundry		39,735,542	65,876,155
		6,135,586,412	5,711,963,605

16.2 Taxation

This is on account of:

		30/06/2021	30/06/2020
Personnel income		9,341,050	7,346,538
Withholding		1,060,470	379,832
	(Note 16.1)	10,401,520	7,726,370

16.3 Tax on interest

Tax on interest represents amount withheld from saving depositors at the rate of 5% of the gross amount of interest paid to the customer. The tax will be collected in the period saving interest is accrued and paid to the customer. (Note 16.1)

17 Share capital

Authorized and paid-up

17.1 This is

	30/06/2021	30/06/2020
Issued and fully paid:		
7,749,050 ordinary shares each having a par value of 1,000	7,749,050,000	
1,000,000 ordinary shares each having a par value of par value of Br. 1,000		1,000,000,000

17.2 AMHARA Credit and Saving Institution S.C. (ACSI) was first established with a subscribed and paid-up capital of Br. 2,000,000.00 dividend into 2,000 ordinary shares having a per value of Br. 1,000 As per the minutes of the shareholders meeting held on 11th July, 2018, the capital of the company is increased by Br. 998,000,000 by transferring accumulated net profit from retained earnings account to Br. 1,000,000,000 divided into 1,000,000 shares each having a par value of Br. 1,000.00.

17.3 As per the decision of the shareholders on extra ordinary meeting held on 31st March, 2021, the capital of the company is increased by Br. 6,749,050,000.00 to Br. 7,749,050,000.00 by transferring the balance from the retained earnings and by accepting new shareholders. The minutes of the shareholders meeting is approved and registered with the Federal Documents Authentication and Registration Agency on 24th January, 2022.

18 Legal reserve

The make-up of the account is as follows:

		30/06/2021	30/06/2020
Opening balance		176,964,238	118,780,850
Add: current year's provision transferred from retained earnings	(Note 19)	342,836,028	58,183,388
Ending balance		519,800,266	176,964,238

19 Retained earnings

The make-up of the accounts is as follows:

		30/06/2021	30/06/2020
Opening balance		6,749,054,222	5,697,276,620
Add: net profit for the year		1,371,344,113	1,163,667,768
net change in equity investment at FVOCI	(Note 11.2)	23,703,827	10,627,795
		8,144,102,162	6,871,572,183
Less: legal reserve	(Note 18)	342,836,028	58,183,388
transferred to capital		6,749,054,222	-
adjustment in respect of prior year		16,894,982	64,334,573
		(7,108,785,232)	(122,517,961)
Ending balance		1,035,316,930	6,749,054,222

20 Earnings per share (EPS)

Earnings per share for the year are computed by dividing the operating profit after legal reserves by the average number of shares outstanding during the year.

	30/06/2021	30/06/2020
Net profit after legal reserve for the year	1,028,508,085	1,105,933,255
Weighted average no. of shares	1,000,000.00	1,000,000
Earnings per share (EPS))	1,028,51	1,105.93

21 Taxation charges

According to the Micro Finance Proclamation No. 626/2009 Article 23, a micro finance that fully ploughs back the profit to the business activity is exempt from business income to payment of business income tax; but if the company distributes the profit to shareholders it shall pay at the rate 30% on the net profit after adjustment of disallowed expenses as per the Income Tax Proclamation No. 979/2016 and Council of Ministers Federal Income Tax Regulation 410/2017.

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22 Interest income

These are from:

	30/06/2021	30/06/2020
Loan to customers	3,628,201,394	3,607,543,598
Interest income from saving accounts	575,080,776	347,336,956
Interest income from staff loan	146,990,452	43,521,990
	4,350,272,623	3,998,402,543

23 Interest expense is arising from:

	30/06/2021	30/06/2020
Interest expense on customer deposit	1,285,838,451	1,103,421,222
Interest expense on bank loan	83,940,713	163,058,693
	1,369,779,164	1,266,479,916

24 Fees and commission

These are from:

	30/06/2021	30/06/2020
Service charges	86,351,468	34,122,072
Dividend	16,494,059	20,352,386
Commission	58,066,340	64,293,048
	160,911,867	118,767,506

25 Other operating income

These are from:

	30/06/2021	30/06/2021
Donation	-	1,175,539
Insurance premium	85,450,165	88,214,273
Gain on exchange rate difference	1,440,862	-
Service charge - other financial services	6,329,463	38,913,849
Penalty	1,078,756	4,875,343
Gain on disposal of asset	771,122	6
Other non - operational income	56,452,772	65,669,199
Loan loss recovered	6,177,281	- -
Sundry	11,823,306	3,226,326
	169,523,727	202,074,535

26 Salaries and other employee benefits

26.1 These are

		30/06/2021	30/06/2020
Salaries		925,256,384	866,190,039
Pension defined contribution plan		116,123,939	102,370,195
Other staff allowance		99,967,779	25,448,932
Cash indemnity allowance		9,449,381	9,312,254
Insurance – employees		-	73,725
Annual leave	(Note 14.1)	426,840	15,262,529
Interest on staff loan		61,871,063	43,521,990
Uniform & clothing		10,316,360	5,824,547
Severance pay		-	5,671,387
Medical		7,287,873	5,405,907
Training		5,776,551	3,969,658
Top-up allowance		58,833,750	56,843,025
Bonus		9,721,751	29,417,172
Acting allowance		678,250	697,441
Housing allowance		474,000	451,000
Bad debt expense		183,803	-
Commission		4,139,053	3,177,395
Service charges		199,763	75,807
Tax on employee benefits	(Note 26.2)	25,429,289	-
Other staff allowances		20,618,749	19,846,968
		1,356,754,576	1,193,559,971

26.2 The balance of tax on employee benefits amounting to Br. 25,429,289 represents the amount of income tax covered and paid by the company on payment of employee benefits as per the decision of the Board of Directors made on Sene 18, 2012 (E.C) to enact such payments starting from 1st July, 2020. (Note 26.1)

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27 General and administrative expenses

These are:

	30/06/2021	30/06/2020
Rent	3,081,145	5,978,594
Perdiem & travel	30,533,280	25,294,741
Stationary & printing	33,357,914	34,230,255
Communications	7,321,298	7,307,799
Marketing & promotion	36,995,263	24,912,340
Insurance	1,514,741	1,131,839
Fuel & lubricants	9,542,793	8,998,724
Entertainment	1,817,244	1,448,718
Repairs & maintenances	5,784,323	3,100,536
Annual maintenance - Core banking software	1,295,922	1,048,031
Donation	203,925	428,217
Wages	2,495,763	4,220,306
Cleaning & supplies	643,031	390,831
Professional fees	500,100	524,490
Utilities	2,561,351	1,091,728
Membership fees	20,000	30,000
License fees	160,074	358,466
Legal fees	6,899,434	3,253,589
Penalty	-	1,388
Loss on disposal of asset	110,298	1,388,907
Miscellaneous	1,911,559	1,717,208
	146,749,458	126,856,705

28 Depreciation on property, plant and equipment

These are:

		30/06/2021	30/06/2020
Depreciation expense	(Note 8)	36,481,802	23,981,301
		36,481,802	23,981,301

29 Amortization of intangible assets & right to use

These are:

		30/06/2021	30/06/2020
Amortization	(Notes 9.1 & 10.1)	7,222,095	3,521,402
		7,222,095	3,521,402

30 Commitments and Contingencies

30.1 Litigation

In the ordinary course of business organizations are usually subject to legal actions and complaints. Following the Institution's customers' failure to meet loan repayment obligations the Institution is involved in legal disputes against such customers the highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges)

30.2 Operating Lease Commitments

The Institution leases offices under cancellable operating lease. The leases typically run for a period of 5 years, with an option to renew the lease after that date operating lease commitments as at 30 June 2021 and 30 June 2020 and are payable as follows:

	30/06/2021	**30/06/2020**
Up to 1 year	5,364,220	3,700,875
1 year to 3 years	-	-
3 year to 5 years	-	-
Over 5 years	-	-
Total pre-paid rent	5,364,220	3,700,875

31 Transactions with related parties

28.1 Related parties or transactions with related parties as defined by IAS "Related party:

a) Parties that directly or indirectly through one or more intermediaries: control or are controlled by or are under common control with the company this includes parents subsidiaries and fellow subsidiaries; have an interest in the Institution that gives then significant influence over the Institution; and that have joint control over the company;

b) Members of key management personnel of the company or its parent;

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c) Close members of the family of any individuals referred to in a or b;

d) Parties that are entities controlled jointly controlled or significantly influenced by or for which significant voting power in such entity resides with directly or indirectly any individual referred to in c or b;

In considering each possible related party relationship attention is directed to the substance of the relationship and not merely the legal form Details of transactions between The Organization and other related parties are disclosed below:

28.2 Related party balances and transactions as and for the year ended 30th June, 2021

	Board Directors	Key management personnel
Borrowing	-	2,778,453
Customers deposit	-	-
Interest expense	-	-
Transport allowance	42,000	-
Salaries and other employee benefits	-	2,198,772
	42,000	4,977,225

28.3 Related party balances and transactions as and for the year ended 30th June, 2020

	Board Directors	Key management personnel
Borrowing	-	1,970,442
Customers deposit	-	-
Interest expense	-	-
Transport allowance	42,000	-
Salaries and other employee benefits	-	1,343,940
	42,000	3,314,382

28.4 Entities that have significant influence over the company

	30/06/2021	30/06/2020
AMHARA National Regional State (ANRS)	5,424,330,000	998,000,000
	5,424,330,000	998,000,000

28.5 Due to the proportion of the capital contribution made by AMHARA National Regional State (ANRS), the shareholder has a significant influence over the company as listed below:

	30/06/2021	30/06/2020
AMHARA National Regional State (ANRS)	70%	99.8%

32 Financial risk management

Introduction

As a financial institution the Institution is exposed to risks that arise from its use of financial instruments This note describes the Institution's objectives policies and processes for managing those risks and the methods used to measure them Further quantitative information in respect of these risks is presented throughout these financial statements Financial assets and financial liabilities that are liquid or have a short term maturity it is assumed that the carrying amounts approximate to their fair value.

'Risk is inherent in the Institution'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 Institution's continuing profitability and each individual within the Institution is accountable for the risk exposures relating to his or her responsibilities. The Institution is exposed to credit risk, liquidity risk, market risk and various operating risks.

Risk management structure

Risk management is one component of all core processes of the Institution. In its day-today activities the institution is exposed to various types of financial risks, the most important of which are credit risk, liquidity risk, interest rate risk and operational risk.

The Institution's risk management and control is based on the following key principles:

- The board of Directors approves the risk management policies of the Institution and ensures their implementation.
- The management is responsible for implementing the policies in a manner that limits risks associated with each risk exposure.
- Appropriate and effective internal control exists to safeguard assets and to ensure compliance with relevant laws, regulations and institutional policies.
- The risk management and monitoring is supported by a management information system that supplies timely and consolidated reports on the financial conditions, operating performance and risk exposure of the Institution.

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Independent Risk Management and Compliance function is established to review compliance with the approved risk management policies and various risk related committees are established which are responsible for the implementation of the risk management policies.

The management has overall responsibility for the determination of the Institution's risk management objectives and policies and whilst retaining ultimate responsibility for them it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Institutions finance function.

The overall objective of the management is to set polices that seek to reduce risks as far as possible without unduly affecting the Institution's competitiveness and flexibility Further details regarding these policies are set out below Through its operations the Institution is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

Risk measurement and reporting systems

The Institution'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.

Monitoring and controlling risks is primarily performed based on limits established by the Institution. These limits reflect the business strategy and market environment of the Institution as well as the level of risk that the Institution is willing to accept, with additional emphasis on selected regions. In addition, the Institution'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.

Risk mitigation

Risk controls and mitigates, identified and approved for the Institution, are documented for existing and new processes and systems. The Institution uses risk tolerance limit as a risk limit control. This risk tolerance limit composed of risk limit by economic sector, by credit product and by maturity. There also limitations imposed by the regulatory organ which all Microfinance Institutions should comply.
As part of the credit risk mitigation which is the main identified financial risk of the Institution, an appropriate risk environment, credit policies and procedures are established. In addition, there is portfolio management, appropriate credit administration and monitoring and loan review function.

The other credit risk mitigation measures are obtaining sufficient collateral securities and guarantees for certain loan products as the second way out in case of default.

Financial instruments by category

The Institution's financial assets are classified into the following measurement categories: available-for-sale and loans and receivables and the financial liabilities are classified into other liabilities at amortized cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

30 June, 2021	Notes	FVOCI	Amortized Cost	Total
Cash and cash equivalents	5	-	11,605,530,844	11,605,530,844
Other assets and pre-payments	6	-	1,563,237,301	1,563,237,301
Loans and advances to customers (Net)	7	-	22,899,243,830	22,899,243,830
Investment in security				
Financial assets at fair value through OCI (2018 AFS)	11(a)	934,819,154	-	934,819,154
Total Financial asset		934,819,154	36,068,011,975	37,002,831,129

30 June, 2020	Notes	FVOCI	Amortized Cost	Total
Cash and cash equivalents	5	-	7,955,192,143	7,955,192,143
Other assets and pre-payments	6	-	1,300,104,334	1,300,104,334
Loans and advances to customers (Net)	7	-	22,219,065,099	22,219,065,099
Investment in security				
Financial assets at fair value through OCI (2018 AFS)	11(a)	746,971,876	-	746,971,876
Total Financial asset		746,971,876	31,474,361,576	32,221,333,452

32.1 Credit risk

Credit risk is the probability that a counterparty of the Institution will not meet its obligations in accordance with agreed terms and conditions which may lead to financial loss. The Institution is exposed to credit risk due to activities such as loans and advances and loan commitments arising from lending activities.

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Management of credit risk

'In measuring credit risk of loans and receivables to various counterparties, the Institution considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counter party/obligor and its likely future developments, credit history of the counterparty/obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out. The Institution's policy is to lend principally on the basis of the customer's repayment capacity through various evaluation. However, as much as possible the Institution ensures that the loans are backed by collateral to reflect the risk of the obligors and the nature of the facility.

In the estimation of credit risk, the institution estimated the following parameters

a. Probability of Default

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

b. Loss Given Default

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

c. Exposure at Default

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

Maximum exposure to credit risk before collateral held or credit enhancements

The Institution's maximum exposure to credit risk at 30thJune, 2021 and 30thJune, 2020 is represented by the net carrying amounts in the statement of financial position.

	30/06/2021	30/06/2020
Cash and cash equivalents	11,605,530,844	7,955,192,143
Loans and advances to customers (Net)	22,899,243,830	22,219,065,099
Other assets and pre-payments	1,563,237,301	1,300,104,334
Investment in securities:		
Financial assets at amortized cost	30,000,000	25,000,000
Financial assets at fair value through OCI (2018 AFS)	934,819,154	746,971,876
Total Financial asset	37,032,831,129	32,246,333,452
Credit risk exposures relating to off balance sheets are as follows:		
Loan commitment	-	-
Total maximum exposure	37,032,831,129	32,246,333,452

Credit quality analysis

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

Credit risk exposure	Stage 1 12 Month ECL	Stage 2 Life time ECL	Stage 3 Life time ECL	Total	30 June, 2020
Stage 1 – Pass	22,205,472,614			22,205,472,614	16,219,534,371
Stage 2 – special mention		771,911,583		771,911,583	3,139,558,804
Stage 3 - Non performing	-	-	1,532,404,259	1,532,404,259	4,085,842,603
Gross amount exposed	22,205,472,614	771,911,583	1,532,404,259	24,509,788,457	23,444,935,780
Less: loss allowance	(349,927,865)	(40,542,075)	(1,220,074,688)	(1,610,544,627)	(1,225,870,682)
Net carrying amount	21,855,544,750	731,369,509	312,329,571	22,899,243,830	22,219,065,099

Amounts arising from ECL

i) inputs, assumptions and techniques used for estimating impairment
See accounting policy in note 3.3 - iv

ii) Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Institution 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 Institution's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

- the Institution uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due,

iii) 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 Institution collects performance and default information about its credit risk exposures analyzed by type of product and borrower. The Institution employs statistical models to analyses 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.

iv) Determining whether credit risk has increased significantly

The Institution 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 Institution'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.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Institution'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 Institution 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 Institution 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 Institution 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 (Stage1) and lifetime PD (Stage 2).

v) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Institution in full, without recourse by the Institution 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 Institution. 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 Institution 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 Institution; 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.

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vi) Incorporation of forward-looking information

The Institution 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. External information which includes economic data and forecasts, an external and independent macroeconomic date body will be considered in the forward looking information assessment, This is in addition to industry-level, semiannual NPL trends across statically comparable sectors. The Institution has

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

vii) 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 Institution 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 Institution 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 modeling 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.

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

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

viii) Loss allowance
Statement of Prudential adjustments
Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the forward looking model required by IFRS-9. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

The Proclamation 'Financial Reporting Proclamation No.847/2014 stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted.

However, the Institution would be required to comply with the following:
(a) Provisions for loans recognized in the income statement should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under the NBE Directives and the expected impact/changes in other reserves should be treated as follows:

- Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve"

Prudential provisions are less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve (retained earnings) account.
(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital

		30/06/2021	30/06/2020
Total impairment based on IFRS	(Note 7.2)	1,610,544,627	1,225,870,682
Total impairment based on NBE Directives		1,077,583,775	779,705,183
Variation in impairment based on IFRS to statutory requirement		532,960,852	446,165,498

Credit Concentration

The Institution monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30thJune, 2021 and 30th June, 2020.

	30/06/2021		30/06/2020	
Agriculture	14,316,031,783	58.41%	13,437,043,266	57.3%
Manufacturing	1,181,920,786	4.82%	967,354,495	4.13%
Trade	2,536,016,282	10.35%	2,734,196,470	11.66%
Transport	267,406,701	1.09%	367,218,149	1.57%
Electricity & Water	59,925,936	0.24%	69,083,764	0.29%
Building & Contraction	887,832,531	4.62%	972,322,629	4.15%
Services	4,487,511,891	18.31%	4,225,611,909	18.02%
Staff loan	773,142,547	3.15%	672,105,098	2.87%
	24,509,788,457	100.00%	23,444,935,780	100.00%

Nature of security in respect of loans and advances to customers

30/06/2020	Building	Vehicle	Cash	Regional Government guarantee	Total
Agriculture	-	-	1,597,538,302	1,791,475,495	3,389,013,797
Manufacturing	1,745,044,178	-	180,382,791	-	1,925,426,969
Trade	1,002,523,852	-	409,017,454	-	1,411,541,305
Transport	-	74,502,039	48,202,175	-	122,704,214
Electricity and Water	-	-	9,023,888	90,238,876	99,262,764
Construction	1,500,307,948	-	132,959,808	-	1,633,267,756
Service	5,695,472,060	-	656,800,354	-	6,352,272,414
(Note 7.4)	9,943,348,038	74,502,039	3,033,924,772	1,881,714,371	14,933,489,220

30/06/2020	Building	Vehicle	Cash	Regional Government guarantee	Total
Agriculture	-	-	1,460,446,592	1,926,734,808	3,387,181,400
Manufacturing	1,519,396,430	-	121,551,714	-	1,640,948,144
Trade	4,937,017,346	-	394,961,388	-	5,331,978,734
Transport	-	680,406,894	54,432,552	-	734,839,446
Electricity and Water	-	-	8,986,734	89,867,340	98,854,074
Construction	1,698,400,742	-	135,872,059	-	1,834,272,801
Service	7,269,393,285	-	581,551,463	-	7,850,944,748
	15,424,207,803	680,406,894	2,757,802,502	2,016,602,148	20,879,019,347

32.2 MARKET RISK

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors. Market risk arises from the institution's use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates interest rate risk.

The Institution is not ordinarily engage in trading activities as there are no active markets in Ethiopia.

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32.3 INTEREST RATE RISK

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Institution. This risk can arise from maturity mismatches of assets and liabilities as well as from the reprising characteristics of such assets and liabilities.

The table below summarizes the Institution's exposure to interest rate risks the table presents the aggregated amounts of the Institution's interest bearing financial assets and interest bearing financial liabilities at carrying amounts as at 30thJune, 2021 and 30thJune, 2020.

	Interest variable	30/06/2021	30/06/2020
Asset			
Cash and balances with banks	Fixed	11,605,530,844	7,955,192,143
Loans and advances to customers	Fixed	22,899,243,830	22,219,065,099
Investment securities	Fixed	934,819,154	746,971,876
Total interest bearing financial assets		35,439,593,828	30,921,229,118
Liabilities			
Deposits from customers	Fixed	21,922,437,021	18,207,770,657
Borrowings	Fixed	1,332,235,991	1,353,655,033
Total interest bearing financial liabilities		(23,254,673,012)	(19,561,425,690)
Net interest sensitivity gap		12,184,920,816	11,359,803,428

The information about maturities of interest bearing financial assets and interest bearing financial liabilities is given in liquidity risk quantitative disclosures.

The Institution's all interest bearing assets and liabilities are at fixed interest rates therefore market interest rate fluctuations do not affect the institution's income or expenses.

33.4 LIQUIDITY RISK

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

In order to manage liquidity risk the Institution performs regular monitoring of future expected cash flows which is a part of assets liabilities management process An analysis of the liquidity and interest rate risks is presented in the following tables The presentation below is based upon the information provided by key management personnel of the Institution

Liquidity of Financial assets and liabilities as at June 30 can be presented in the following table:

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Financial assets:	Note	Up to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Cash and cash equivalents	5	11,605,530,844	-	-	-	11,605,530,844
Loans to customers	7	3,210,444,633	5,016,319,739	5,730,920,684	8,941,558,774	22,899,243,830
Total financial assets as at 30th June, 2021		14,815,975,477	5,016,319,739	5,730,920,684	8,941,558,774	34,504,774,674
Financial liabilities:						
Customers deposit	12	742,800,874	1,784,775,688	6,499,532,138	12,737,394,030	21,764,502,730
Borrowings	13	-	-	469,310,622	862,925,369	1,332,235,991
Total interest bearing financial liabilities		742,800,874	1,784,775,688	6,968,842,761	13,600,319,399	23,096,738,722
Employee benefits obligation & other liabilities	14 & 15	1,566,058,692	1,879,270,432	2,818,905,651	-	6,264,234,775
Total financial liabilities as at 30thJune, 2021		(2,308,859,566)	(3,664,046,120)	(9,787,748,412)	(13,600,319,399)	(29,360,973,497)
Liquidity gap as at 30thJune, 2021		12,507,115,911	1,352,273,619	(4,056,827,728)	(4,658,760,625)	5,143,801,177
Liquidity gap as at 30thJune, 2020		4,985,466,269	(581,974,125)	3,321,295,501	(3,496,312,479)	4,228,475,166


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