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Dashen Bank

ANNUAL REPORT

2020/2021

25th ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2021

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Dashen Bank

Receive money from all over the world

thunes
smart. transfer. solutions.

Ecobank
The Pan African Bank

Crown Agents Bank

MFS Africa

WESTERN UNION

UNITYLINK
FINANCIAL SERVICES

Flutterwave®

MoneyGram.
money transfer

JUBA EXPRESS
SERVICE BEYOND THE ORDINARY

MAMAY GROUP

Ria

Dahabshiil

TRANSFAST
Worldwide Money Transfer

UPESI

worldremit

EzRemit
Money Transfer

S.W.I.F.T.
DASHETAA

KAAH
Leader In Modern Remittance

XPRESS MONEY

ራዕይ | OUR VISION

ከምርጥ የአፍሪካ ባንኮች
አንዱ ሆኖ መገኘት።

TO BE BEST-IN-CLASS BANK
IN AFRICA.

እሴቶች | OUR VALUES

- ደንበኛን ያማከለ
- ብዝሃነት
- ሙያዊ ብቃት
- በህብረት መስራት
- ሀቀኝነት
- ማህበራዊ ሀላፊነት

CUSTOMER CENTRICITY
DIVERSITY
PROFESSIONALISM
TEAMWORK
INTEGRITY
SOCIAL RESPONSIBILITY

ተልዕኮ | OUR MISSION

የሙያ ብቃትና ተነሳሽነት ባላቸው ባለሙያዎችና በዘመን አፈራሽ ቴክኖሎጂ ጥምረት ቀልጣፋና ደንበኛን ማዕከል ያደረገ የባንክ አገልግሎት እየሰጡ ለባለድርሻ አካላት ዘለቄታዊ እሴት መፍጠር።

TO PROVIDE EFFICIENT CUSTOMER-CENTRIC BANKING SERVICE USING THE EXPERTISE OF INSPIRED PROFESSIONALS AND CUTTING-EDGE TECHNOLOGY, WHILE CREATING SUSTAINABLE VALUE FOR OUR STAKEHOLDERS.

ዳሸን ባንክ
Dashen Bank

ሁልጊዜም አንድ እርምጃ ቀዳሚ !
Always One Step Ahead !

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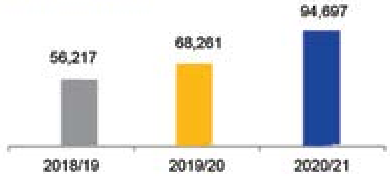
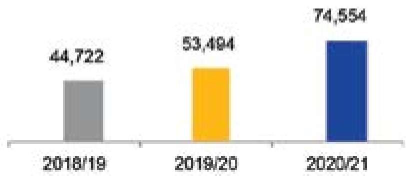
Our Scorecard

Total Assets (In Millions Birr)

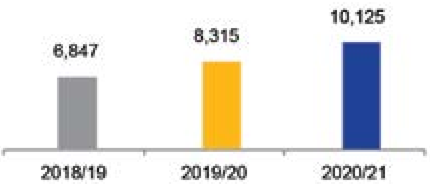


Deposits (In Millions Birr)

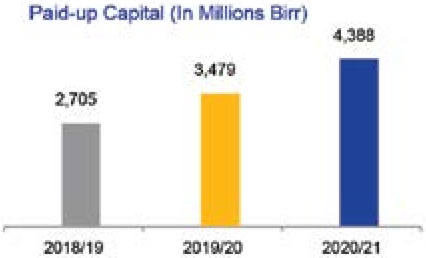


Oustanding Loans & IFB Financing Net of Provision (In Millions Birr)

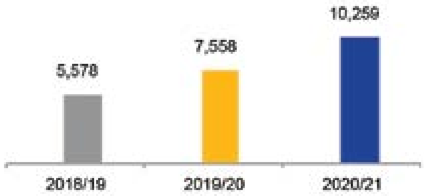
Total Capital (In Millions Birr)



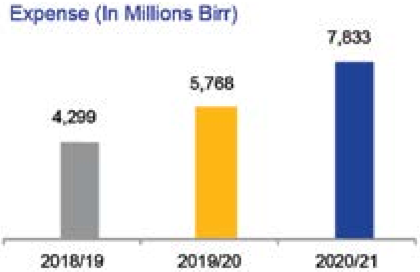
Paid-up Capital (In Millions Birr)



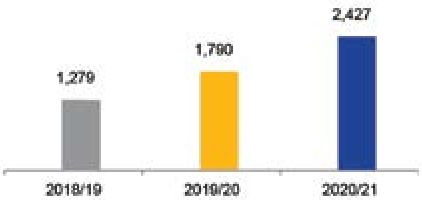
Revenue (In Millions Birr)



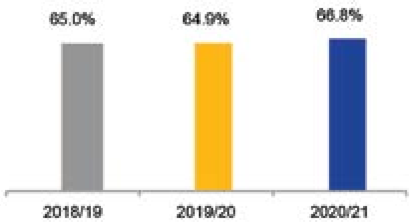
Expense (In Millions Birr)



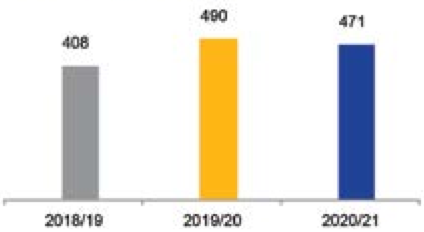
Profit before Tax (In Millions Birr)



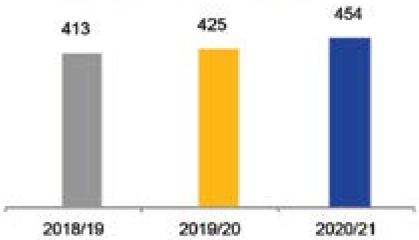
Cost-to-Income Ratio (%age)



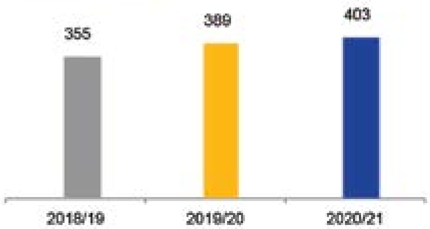
Earning Per 1,000 Share



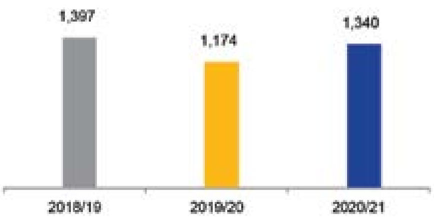
Number of Branches Including Outlets



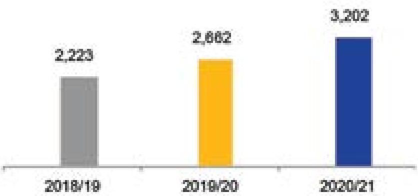
Number of ATMs



No. of POS Terminals

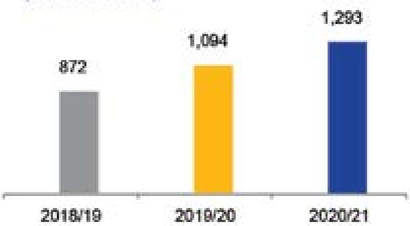


Number of Depositors (In Thousands)

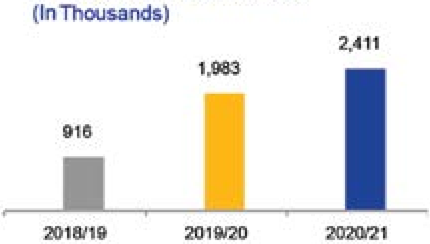


Number of Loanees

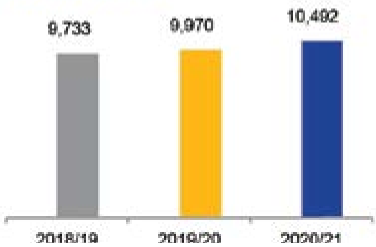
Number of Cardholders (In Thousands)



Number of Amole Subscribers (In Thousands)



Number of Staff



BOARD DIRECTORS

NEWAY BEYENE
Chairman

ABDULMUTELIB BEYAN
Director

ABEBE TEKLU
Director

DULLA MEKONNEN
Director

GETAW YALEW
Director

HAILE ASSEGIDE
Director

MEKETE DAGNEW
Director

RAHEL WEREDE
Director

SAEED AHMED
Director

SHARI'AH ADVISORY COMMITTEE

SHEIKH MUHAMMED YASIN IBRAHIM
Chairman

USTAZ MAHMOUD HASSEN HUSSEN
Vice Chairman

DR. KEMAL HAJI-GELETU MAMME
Member

USTAZ MUSTAFFA HAMID YUSUF
Member

USTAZ REMEDAN AHMED ABDO
Member

EXECUTIVE MANAGEMENT

ASFAW ALEMU
Chief Executive Officer

ALEMNEH ABEBE
Chief Finance Officer

FREEGZI BERHANE
Chief Cooporate Service Officer

HENOK KEBEDE
Chief Banking Operations Officer

SHIMELIS LEGESSE
Chief Information Officer

TIBEBU SOLOMON
Chief Retail & MSME Officer

YARED MESFIN
Chief Corporate Banking Officer

YIHNALEM AKNAW
Chief Transformation & Customer Experience Officer

EYERUSALEM WAGAW
D/Chief Human Resource Officer

MESFIN BEZU
D/Chief Interst Free Banking Officer

DEPARTMENT DIRECTORS

ABERRA BEKELE
Director, Legal Service Dept.

ABESELOM MULUGETA
Director, International Banking Dept.

ABIYOT W/YESUS
Director, Finance & Accounts Dept.

AFEWORK GUGSA
Director, Retail & MSME Banking Dept.

ANDUALEM BELETE
Director, Treasury Management Dept.

ANTENEH TADESSE
Director, IT Infrastructure Dept.

ANTENEH TESFAYE
Director, CBD-Domestic Trade & Service Dept.

ASCHALEW TAMRU
Director, Marketing & Customer Experience Dept.

ASFAW H/MARIAM
Director, Internal Audit Dept.

AYELE TESHOME
Director, Branch Operations & Central Processing Dept.

CHANYALEW DEMISSIE
Director, CBD-Government Agencies, NGOs & International Trade Service Dept.

DEJENE GETAHUN
Director, Enterprise Program Mgt. Dept.

FESEHA BIRHANU
Director, CBD-Manufacturing & Agriculture Sector Dept.

FEYESEL ABDU
Director, Corporate IFB Dept.

GETNET DESSIE
Director, Enterprise Risk & Compliance Dept.

HAILU MOGES
Director, Talent Development Dept.

HEWATE KEFELEGN
Director, Talent Management Dept.

KASAYE ESHETU
Director, Alternate Channels Dept.

LIDIA SAMUEL
Executive Assistant to the CEO

MESERET YAZECHEW
Director, Credit Analysis & Appraisal Dept.

MUHAMMED AHMED
Director, HR Operations & Partnership Mgt Dept.

MULUGETA ALEBACHEW
Director, Strategy and Innovation Dept.

TADESSE KASAHUN
Director, Credit Recovery & Portfolio Mgt. Dept.

TADIWOS LAEKEMARIAM
Director, Engineering Service Dept.

TAGEL MEKONNEN
Director, System Security Dept.

TAMIRAT TILAHUN
Director, Facilities Management Dept.

TESFAYE ANENE
Director, Application Development & Support Dept.

ZELALEM TADDESSE
Director, Supply Chain Dept.

STATEMENT OF THE BOARD CHAIRMAN

Honorable Shareholders,

I am I am delighted to welcome you to the 28th Annual General Meeting of our Bank. Despite the hosts of challenges encountered during the past financial year, we proved our resolve, resilience and adaptability to deliver value to you, our Shareholders. I am, therefore, pleased to present the results of our operations for the financial year ended June 30, 2021.

Over the past year, the global economy has seen signs of recovery from the worst socio-economic impacts of the Covid-19 pandemic. Nonetheless, the recovery hasn't been smooth. Emergence of new variants and vaccine inequality prolonged the fight against the pandemic. On the economic front, production slacks amid sharp rises in demand following lifting of restrictions and return of life to normalcy; and disruptions in the global supply chain, particularly manifested in shortage of cargo containers, have been causing havoc on the global economy. Prompted by these challenges, prices of some of the major international commodities have shown sharp increase.

The year has been of historic proportion in Ethiopia's political scene. The political confrontation in the North of the Country turned into military engagement with distressing socio-economic impacts. Even though under immense regional and international pressures, the second filling of the Great Ethiopian Renaissance Dam (GERD) went as planned, much to the delight of Ethiopians. Towards the end of the year, the Nation also went to the polls in the sixth national elections. Aside from the political hurdles, the Country has been dealing with the socio-economic impacts of the pandemic. Withholding of foreign development funds compounded by illegal economic maneuvers have exasperated the forex crunch leading to sharp decline in the purchasing power of Birr and a subsequent rise in cost of living. But the year has not been all doom and gloom. With improved earnings from minerals and coffee, the Country's earnings from export has continued gaining

NEWAY BEYENE
Chairman, Board of Directors

momentum. The first telecoms license issued to the global consortium led by Kenya's Safaricom has also ushered a new beginning to economic liberalization.

The year saw policy developments with positive impacts on the banking industry. Demonetization of the Birr had resulted in unprecedented growth in new bank accounts and deposits kept with banks. The measure proved to be instrumental in promoting financial inclusion by bringing a huge section of the society in to the financial system. The cash notes change and the associated measures that put limits on withdrawals and cash kept by individuals and businesses (outside banks) had been useful in dealing with cash circulating outside the banking system. These measures, coupled with the lifting of NBE Bills purchase requirement, had also boosted liquidity of the banking system.

The banking industry is now wide open for diverse players, from full-fledged interest free banks (IFBs), to partially state-owned microfinance cum commercial banks, telecom operators, and Fintechs. New full-fledged IFBs have joined the industry and some of the biggest microfinance institutions are acquiring banking license. The state-owned ethio telecom has launched the first telco-led mobile money service by the name telebirr. Competition among existing banks had been stiffening as some go for greater market share while others safeguard their position all amid a persistent resource constraint and threat of new entrants. Robust capitalization has been seen among leading players while ambitions of organizers of some banks under formation have been dashed leading to mergers and potential drop out given the growth in minimum capital requirement.

While dealing with the enormous challenges, Dashen Bank has achieved unprecedented growth during the financial year. The Bank managed to mobilize additional deposits of Birr 21.1 billion during the year. The Bank closed its books of account with Birr 74.6 billion in aggregate deposits, after a 39.4% growth compared to same period of last year. The IFB wing of the Bank has continued growing, contributing Birr 4.8 billion to the aggregate deposits of the Bank after an impressive 102.7% year-on-year growth. On the back of robust increase in deposits, the Bank's net outstanding loans and advances, and IFB financing mounted to Birr 63.9 Billion, after a 50% year-on-year growth. Total assets of the Bank surged to Birr 94.7 billion, registering a 38.7% growth. Owners' equity also went up to Birr 10.1 billion attaining 21.8% growth relative to last year. With additional injection of Birr 909 million, paid-up capital of the Bank reached Birr 4.4 billion, and comprised 43.3% of owners' equity by the close of the reporting period. The Bank concluded the financial year with Birr 2.4 billion in profit before tax, a record achievement that exhibited a 35.6% rise compared to the preceding year.

Halfway through the implementation period, the Bank reviewed its fifth strategy plan in light of the momentous changes unfolding in the operating environment. The participatory review process has led to re-articulation of the strategy plan along nine levers for value creation. The re-articulated strategy seeks to keep the Bank on course for greater competitiveness, sustained growth, and profitability. With the new strategy in full force, focus is put on targeted, yet extensive market engagement; strategic investments geared towards building a digital bank; human capital development; and embedment of best-in-class risk management practice, among others. The Amole digital payments platform has also continued attracting users and ecosystem players. The subscriber base of the platform reached 2.4 million by the close of the reporting period.

The year has been a historic one for Dashen Bank as it marked its Silver Jubilee. Despite the humble beginning, ambition and hard work of successive generations of Shareholders, Directors, Management and Staff have brought us here growing in leaps and bounds through the years. The 25 years' journey of the Bank was commemorated in a series of colorful events. The Anniversary gave the podium for stakeholders to recollect the successful journey of the Bank and pay homage to loyal and prominent customers, former Board Directors and Executive Management members, long serving staff, and partners for putting their mark on the sustained growth and far reaching impact of the Bank in changing the lives of Ethiopians for the better.

With the opening up of the market for diverse players and the developments in the broader environment, the banking industry in Ethiopia is in uncharted territories. Despite being dented by the economic and political challenges; the opportunities remain rife as the Country boosts enormous growth prospect. However, with the diverse players joining the industry, competition may further stiffen and take new forms. Given the market dynamics and guided by its strategic plan, Dashen Bank shall boost its capital base so as to ensure its strategic investments particularly that of technology investments that drive its digital oriented growth ambitions. As proved in the past I have confidence that our Shareholders will continue making their farsighted decisions in this regard.

Distinguished Shareholders,

The remarkable achievements of our Bank during the financial year would not have been possible without continued support of our key stakeholders. We keep on thriving because of the trust and confidence bestowed on us by our valuable customers, to whom we are indebted for their patronage. I am truly grateful for the unreserved commitment of our Shareholders for the continued investment in the future of the Bank. I am also thankful to fellow Directors in the Board for the unrelenting commitment and stewardship in the prudent exercise of our oversight role. The entire leadership and staff of the Bank also owes my gratitude for the collective commitment and effort towards continued growth and profitability of the Bank. I further appreciate the valuable guidance and collaboration of the National Bank of Ethiopia and all our partners for being with us in this exciting journey.

Thank you,

Neway Beyene
Chairman, Board of Directors

THE CEO'S MESSAGE

Honorable Shareholders,

I am honored to present the annual performance of the Bank for the fiscal year ended 30th June 2021. This is the 25th Annual report and financial statement of the Bank marking the 25 years' successful journey of our Bank.

The following discusses the operating environment, the Bank's overall performance, the Bank's business and organizational development, the way forward, and finally a vote of thanks.

The Operating Environment

The global economy continued experiencing persistent challenges particularly with the COVID-19 pandemic impacting global activities. According to the World Economic Situation and Prospects (WESP) mid-2021 report, following a sharp contraction of 3.6 percent in the preceding year, the global economy is now projected to expand by 5.4 percent in 2021. Similarly, the latest IMF economic outlook of April 2021 has also projected the global economy to grow at 6.1% for 2021 as the impact of the pandemic fades over time and vaccine coverage and treatment improves. Consequently, there is a positive growth forecast for global trade, which is projected to grow by 8.4% according to IMF (April 2021) and by 9.4% according to the UN-WESP 2021 forecast. Trade in services remained constrained by restrictions on international travel. Merchandise trade has already surpassed pre-pandemic levels, reaching a record high in January 2021 (United Nations World Economic Situation and Prospects (WESP) mid-2021 report).

On the domestic front, the economy grew at 6.1% in 2020 F.Y, as the impact of the COVID-19 pandemic took place largely in the final quarter of the fiscal year. Ethiopia's growth forecast for the fiscal year 2020/21 has been revised upwards from 0 to 2 percent due to the higher-than expected momentum from 2019/20 F.Y. (Regional Economic Outlook: IMF, April 2021).

One of the major macroeconomic developments during the fiscal year, was the change in currency notes during mid-September 2020. Despite various monetary and fiscal interventions by the government, the inflation rate has stayed above or close to 20% during the period under consideration. Though the outlook was upset by conflicts, the macroeconomic and structural reforms being implemented are expected to strengthen foreign direct investment, exports, and economic growth in the medium term.

The banking industry has been operating under challenging conditions in the year under review mainly due to the negative impact of the pandemic on business activities, political instability and civil unrests in some parts of the country which affected smooth business operations and caused branch closures in some areas and the crisis encountered in Tigray Region amongst others.
On the positive side, the major regulatory developments introduced during the reporting period have offered opportunities for our sector. Amongst which increase of the minimum capital requirement for banks, allowing domestic investors to operate payment systems, the establishment of the Ethiopian Movable Collateral Registry, establishment of deposit insurance funds, relaxation of requirements for agent banking, foreign currency intermediation through banks, the cash withdrawal and cash holding limits outside of the banks and the change of the currency notes were amongst the major ones.

With the opening of the industry for new and diverse players in conventional banking spaces, several financial and non-financial institutions are set to join the industry, and so redefine the competitive landscape.

Foreign currency shortage has been a persistent challenge in the industry during the fiscal year under review. The exchange rate of Birr against major currencies has also been continuously declining in the year under review.

Operating and Financial Performance

Responding to the multifaceted challenges and leveraging opportunities the Bank remained resilient. A review of our strategic, financial and operational performances revealed progressive performance results.

The Bank's total Assets as at June 30, 2021 grew by 39% over last year's position and reached Birr 94.6 billion. The lion's share of the Assets, Loans and Advances and IFB Financing have witnessed a growth of 50% over the same period last year and stood at Birr 63.9 billion. On the Liability side, the overall customer deposits grew by 39.3% and reached Birr 74.6 billion by the end of the year under consideration. The Bank has also registered a record high performance in deposit mobilization, raising Birr 21.1 billion in the year alone. The increase in growth over last year was 1.4 times higher. The total capital of the Bank also increased by 21.7% to stand at Birr 10.1 billion. The share capital at the end of the year increased by 26% and stood at Birr 4.4 billion.

During the year under consideration, the Bank generated a total revenue of Birr 10.3 billion and incurred expense of Birr 7.8 billion exhibiting a 37.8% growth of both revenue and expenses, over the last year. The Bank registered a profit before income tax and profit after tax of Birr 2.4 billion and Birr 1.7 billion, registering a growth of 35.6% and 12.3% respectively. Earnings per share stood at Birr 471 showing a 4% decline to that of last year due mainly to the increase in share capital by 26%.

Business and Organizational Development

We have continued working hard and making progress towards our vision of becoming the best in class bank in Africa. In the year under consideration we have colourfully celebrated our Bank's silver jubilee by holding memorable and befitting events and CSR activities.

Being agile to the dynamic environment the Bank has conducted an early appraisal of its' strategic

ASFAW ALEMU
CEO

plan and re-articulated strategic imperatives and initiatives. During the year under review, we have been continuously engaged in revisiting our value proposition to our customers and made them more responsive and inclusive. In order to enhance the direct remittance inflow from the sending international corridors, system integrations were successfully completed with globally known and highly networked aggregators M/s Flutter Wave and M/s Thunes in collaboration with Moneta Technologies PLC. This has enabled direct remittance to one's Mobile Wallet, Bank Account and Cash Pick up. This has created an opportunity to FCY remitters particularly, the diaspora community, to enjoy not only fast and dependable transfers but also lower the cost. In the payment card front, co-branded gift cards were also launched with Queens Supermarket, Addis Home Depot and Lime Tree Restaurant. Another milestone of the period was the launch of an international payment gateway on VISA Cyber source that facilitates e-commerce and hotel reservations.

In terms of channel expansion, an additional 11 full-fledged IFB branches, eight conventional branches and 10 outlets were opened. Similarly, 14 ATMs were deployed, 190 new Amole Merchants and 151 new Amole Agents were recruited. The Amole branded digital banking platform has attracted 443,586 new subscribers to make the total number of subscribers 2.4 million. The total number of Amole merchants had reached 8,119 by the end of the year.

The total number of staff has now reached 10,492 of which 6,422 are permanent staff. In the period under consideration the staff number has increased by 5%. To enhance the successors' leadership and behavioural skills gaps identified using a 360- degree assessment, individual online coaching and training programs in collaboration with a renowned international institution were conducted.

In the year under consideration, the Bank sponsored various initiatives including a Dine for Ethiopia Project, environmental reservation in Lalibella, the Annual Begosew Award, a feeding program for COVID 19 victims and health workers, tree planting at Entoto natural forest in collaboration with the Ethiopian Heritage Foundation, support for community based charities for construction of a school at Beyeda Wereda in North Gondar, among others.

The Way Forward

The Bank has re-articulated its five-year strategy in view of the fast changing task environment. Accordingly, in the ensuing period we shall realign with the changes adopted and reinforce our strengths in our journey towards our strategic aspirations.

Vote of Thanks

On behalf of myself and the entire team of Dashen Bank, I seize this opportunity and extend my sincere gratitude to our esteemed customers who have continued their trusted journey and partnership with our Bank. I am also indebted to the Board of Directors for their unrelenting engagement, strong leadership, guidance and support. My highest regards and appreciation also goes to our esteemed shareholders for their unwavering support, our employees, for their resilience, dedication and utmost commitment to the vision of the Bank. Finally, my appreciation goes to all stakeholders in general and the National Bank of Ethiopia in particular, for its guidance, continued support and cooperation.

Respectfully,

Asfaw Alemu
CEO
November 18, 2021

DASHEN BANK S.C.

BOARD OF DIRECTORS' REPORT

The Board of Directors of Dashen Bank S.C are pleased to present the annual report of the Bank together with the audited financial statements and the auditor's report for the financial year ended 30 June 2021.

REVIEW OF THE OPERATING ENVIRONMENT

The 2020/21 fiscal year had seen the continued impact of the Covid-19 pandemic on the global economy. Nonetheless, the impact of the pandemic has been fading overtime with the advent and growing coverage of vaccines. Even so, vaccine inequality and the emergence of new variants remain challenges to the global community. With the relaxation of restrictive measures, economic activities have started returning to normalcy. The IMF estimated global GDP growth at 6.0% during 2020/21, an impressive growth relative to the 3.2% recession registered in the preceding financial year. Consistent with recovery in global activity, global trade volumes are forecast to grow by about 9.7% in 2021. Services trade showed slower recovery than merchandise volumes, which is consistent with subdued cross-border tourism and business travel. With the return of economic activities to normalcy, production cuts, disruptions in supply chains and growing global demand have resulted in a sudden spike in commodity prices.

During the financial year, Ethiopia experienced unprecedented times faced with the continued impact of the Covid-19 pandemic, political uncertainties in the lead up to the sixth national election, the military conflict in the north of the Country, the second and historic filling of the Great Ethiopian Renaissance Dam, and the accompanying political pressures and threats of sanction by foreign powers. The overwhelming challenges have been manifested in soaring inflation and depreciation in the value of the Birr against major currencies. The year saw some remarkable economic developments as well. Opening up of the economy for domestic and foreign private operators has continued and the consortium led by Kenya's Safaricom has been awarded with the first telecommunications network operating license worth an upfront payment of USD 850 million. The Country performed well in commodities exports, earning USD 3.6 billion as the upturn continues with 19% growth compared with the previous year's proceeds. Closer to 20% year-on-year growth was also achieved in tax collection during the reporting period.

The fiscal year began with positive developments for the banking industry. The cash notes change and restrictions on cash withdrawals and cash holdings limits put on individuals and businesses have been instrumental in bringing back cash in circulation to the banking system while enabling a huge leap in customer acquisitions and deposit mobilizations. This development has translated to a significant growth in credit deployment and earnings for industry players. The lifting of the NBE Bills purchasing requirement was another positive development. The reporting year has witnessed the establishment of Deposit Insurance Funds aimed at guaranteeing depositors in times of financial crisis; while regulatory requirements on agent banking were relaxed. Provision was also made for local businesses engaged in export activities to borrow foreign currency through intermediation of local Banks.

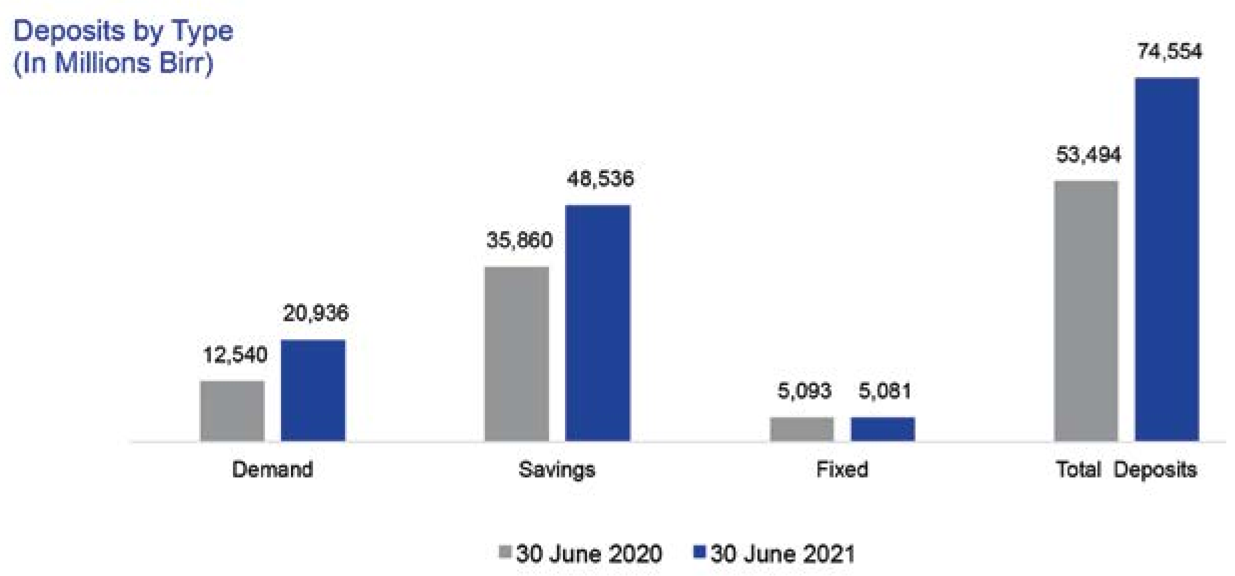
With the opening up of the market for diverse operators, domestic investors can now operate payment systems; and non-financial institutions are allowed to provide mobile money services, a provision which ethio telecom tapped into quickly with the launch of its TeleBirr service. Microfinance institutions owned by regional states and cities are also allowed to transition to full-fledged commercial banking, a path currently being pursued by the Country's biggest micro lenders. In the fiscal year under review, an Interest Free Bank has gone operational, while two more are on the way. Several conventional banks, including mortgage financiers, are also preparing to join the market.

OPERATIONAL HIGHLIGHTS

Deposits

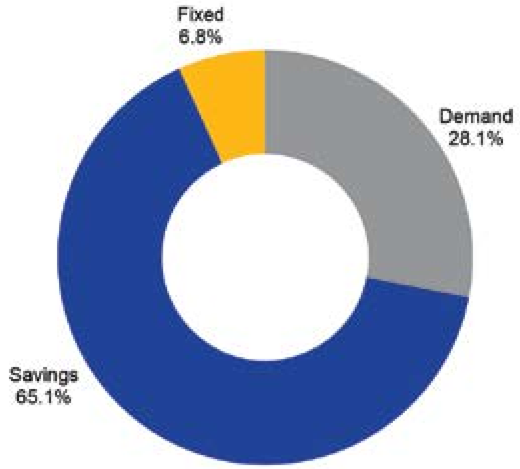
As one of the major industry players, Dashen has benefited from positive developments that happened during the reporting period. The cash notes change and the restrictions on cash withdrawal from banks, and the cash holding limits put on individuals and businesses were such major developments. With these monetary developments and the Bank's relentless endeavors for customer acquisition and resource mobilization, a historic incremental deposit of Birr 21.1 billion was mobilized during the 2020/21 financial year. As a result, the aggregate deposits of Dashen Bank, mobilized from a customer base of 3.2 million accountholders, grew to Birr 74.6 billion as of 30 June 2021.

The Bank's three years old Shari'ah-compliant interest free banking segment mobilized aggregate deposits of Birr 4.8 billion, after an impressive 102.7% growth relative to the previous year.



Category-wise, the highest increment of aggregate deposits came from Savings, which registered Birr 12.7 billion or a 35.3% year-on-year growth. Demand Deposits also showed an increment of Birr 8.4 billion, attaining a year-on-year growth of 67.0%. As the Bank resorts to less costly sources of loanable funds, Fixed Time Deposits showed slight decline of about 0.2%.

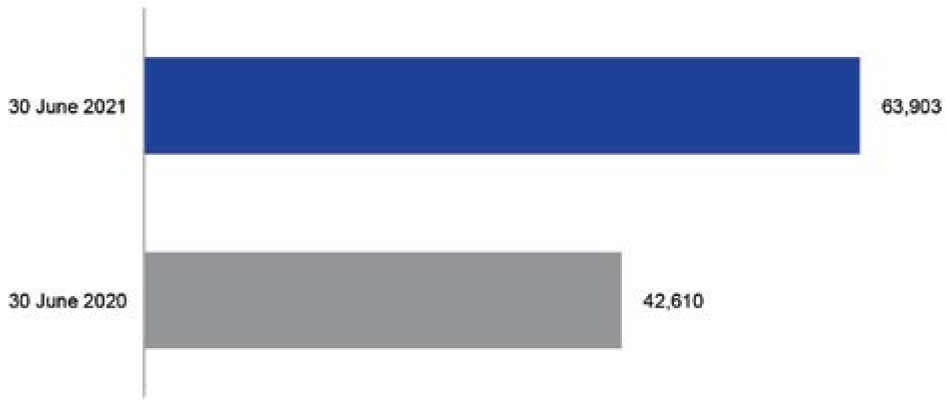
Percentage Share of Total Deposit by Type



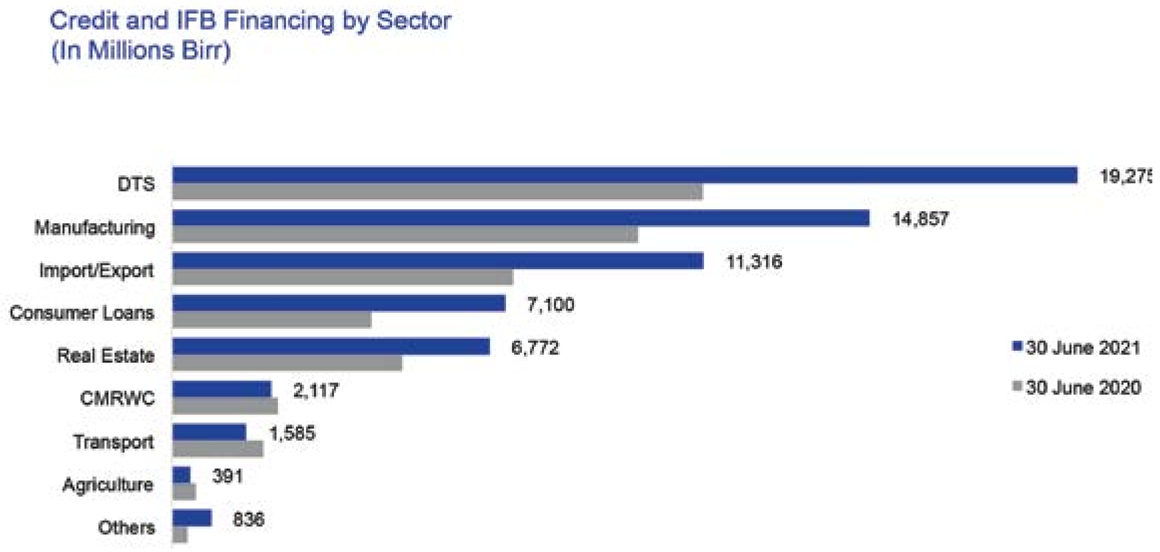
Loans & Advances

The fiscal year witnessed yet another record performance in resource deployment, whereby the Bank managed to raise its net outstanding loans and advances and IFB financing by 50% to Birr 63.9 Billion. Resources to the tune of Birr 2.3 billion had been channeled through the Shari'ah-compliant interest free banking segment achieving more than a three-fold growth compared to the same period last year. Record deposit mobilization, strong loan collections, lifting of the NBE Bills purchase requirement and favorable macroeconomic situations have contributed to the unprecedented growth registered in resource deployment.

Net Outstanding Loans & IFB Financing (In Millions Birr)



Dashen Bank credit and financing facilities cover diverse economic sectors. By the close of the reporting year, more than 70% of the resources of the Bank were channeled to Domestic Trade and Services, Manufacturing and International Trade sectors. Real estate and consumer financing exhibited strong growth during the reporting period.



Note

'DTS' refers to Domestic Trade & Services and Special financing scheme-hotel and tourism
'CMRWC' represents Construction Machineries Rental and Working Capital
'Consumer loans' include Personal, Staff housing loans and Emergency staff loans
'Others' include Mining, DBE SME Finance Project, MasterCard Foundation Loan Facility and Loans and Advances under Litigation

Digital Banking Services

Digital banking remains a strong competitive edge of Dashen Bank since the days it pioneered the introduction of core banking system, card banking and mobile payments. In the review period, the Bank's digital payments platform, Amole, was integrated with three payment gateways - Visa, Thunes and Flutter Wave. The partnership with Visa provides customers the convenience for payments while transacting on ecommerce platforms. The integration with Thunes and Flutter Wave further makes it easy to send money in real time direct to the Amole wallet and bank account. In the card banking space, co-branded cards were introduced with three partners, Queens Supermarket, Addis Home Depot and Lime Tree Restaurant. The Bank has kept building its digital payments ecosystem and new partnerships are established with Ministry of Revenue (for tax collection) and Ethio Telecom (for mobile top up), while further opportunities are being pursued vigorously. The Bank has brought onboard 2.4 million users on its Amole platform. In the reporting period, 427 thousand users joined the platform, where 552 thousand transactions involving Birr 2.3 billion were entertained.

By the close of the reporting period, the card acquiring network of the Bank reached 403 ATMs and 1,340 point of sale (POS) terminals. Dashen Bank accepts four international cards, including VISA, MasterCard, Amex and UnionPay across its digital channels. At the end of June 2021, the total cardholders of the Bank reached 1.3 million after attaining a year-on-year growth of 18.2%. Dashen currently issues American Express branded Gold and Green Cards, as well as proprietary interest free banking cards by the name Sharik and An-Nissa.

International Banking

The unabated forex crunch continued impacting resource mobilization and deployment. Despite modest improvements in the Country's export earnings, tourism and international travel, FDI, and remittances remained subdued. Dashen Bank has been able to surmount the challenges mobilizing foreign currency to the tune of USD 602.8 million, up by 9.3% compared to the previous year. The achievement is attributed to the strong reputation of the Bank among international partners and the concerted efforts made.

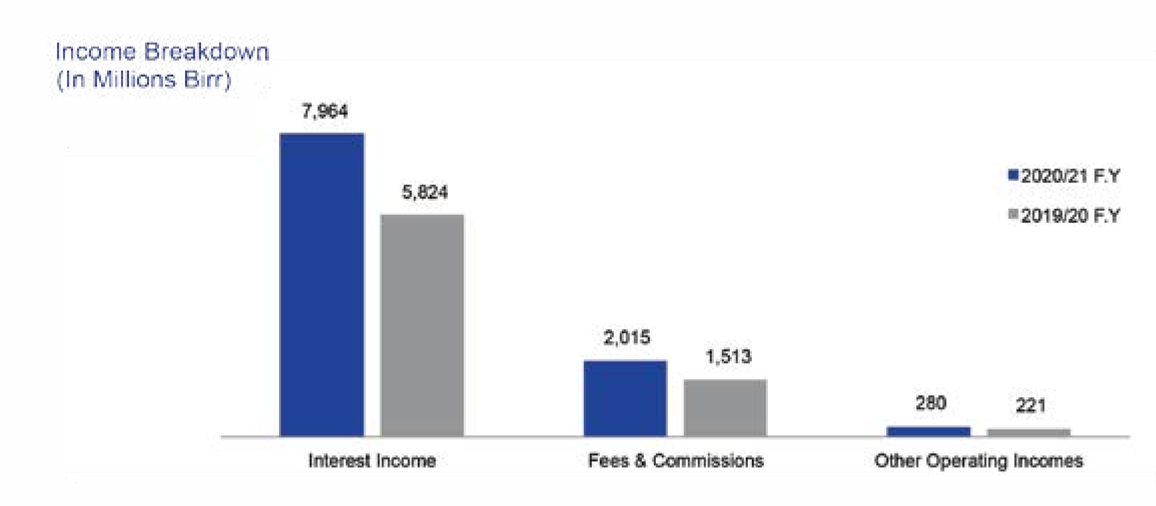
FINANCIAL HIGHLIGHTS

Statement of Financial Position

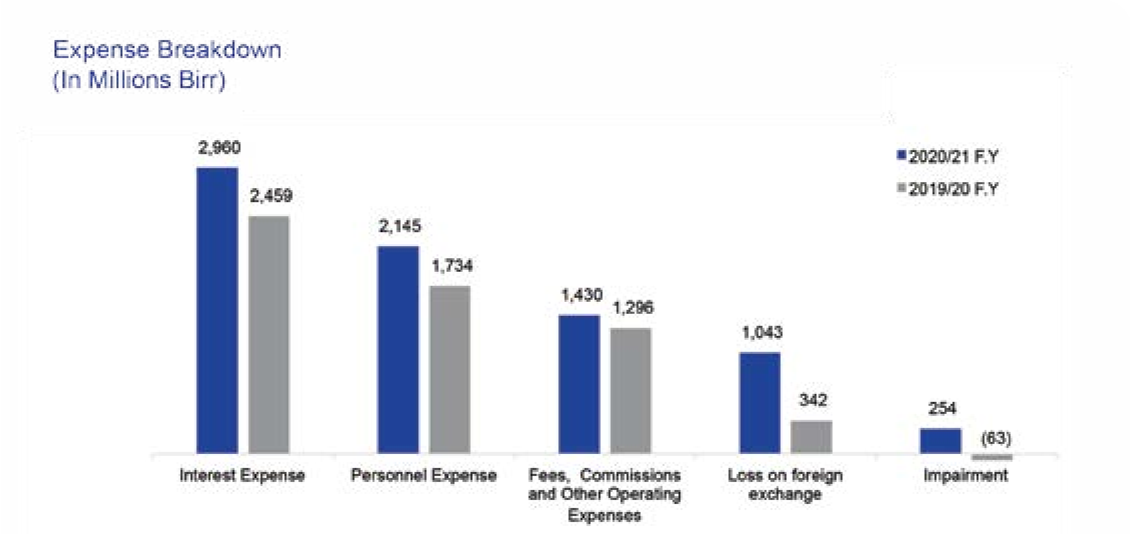
The Bank managed to boost its total assets to Birr 94.7 billion, a strong 38.7% growth compared to the previous year. The record growth attained in credit expansion contributed to the large share of the boost in assets, which is also complemented by diverse investments. In the reporting period, total equity climbed to Birr 10.1 billion attaining 21.8% growth relative to last year. Paid-up capital of the Bank, which reached Birr 4.4 billion after a 26.1% year-on-year growth, comprised 43.3% of the total equity.

Statement of Profit or Loss and Other Comprehensive Income

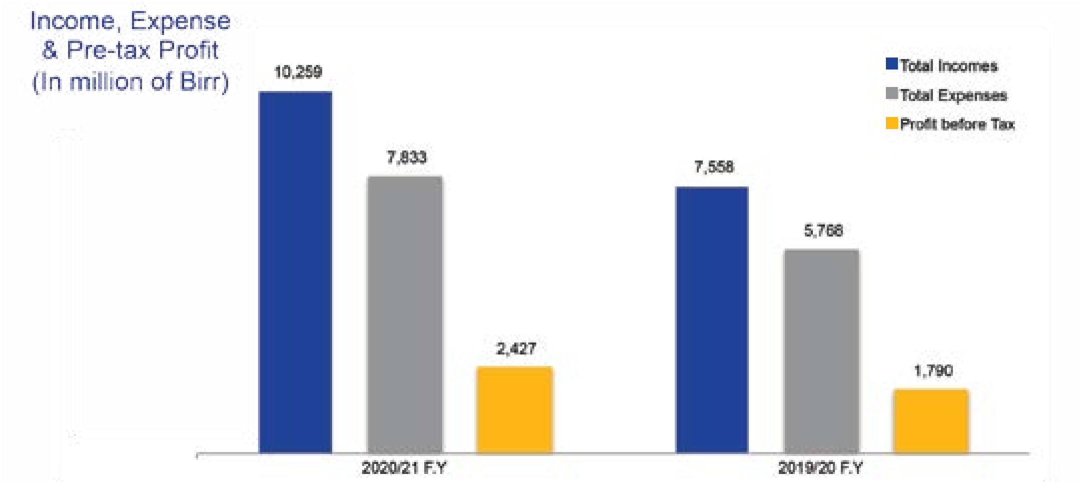
The Bank earned gross income of Birr 10.3 billion from core operations and other investments achieving an annual growth of 35.7%. In terms of composition, the higher portion (77.6%) of income came from interest income, while the remaining balance came from commissions and service charges on domestic and international banking services.



On account of growing deposits and cost of doing business, the Bank incurred total expenses of Birr 7.8 billion, which represents a 35.8% growth compared to last year. Component wise, the lion's share (37.8%) was interest paid on deposits followed by personnel expenses (27.4%).



The Bank concluded the year with a record profit before tax of Birr 2.4 billion. Profit before tax grew by 35.6% compared to the preceding fiscal year.



Proposed Dividend Payout

Out of the total distributable net retained earnings balance, the Board of Directors recommends Birr 579,576,000 (five hundred seventy-nine million five hundred seventy-six thousand) to be added to capital as plowback and a dividend of Birr 579,576,000 (five hundred seventy-nine million five hundred seventy-six thousand) to be paid to shareholders in cash.

OTHER ACTIVITIES

Business Development

Halfway through the implementation of the Five Years Strategy Plan, the Board and Management extensively reviewed the implementation status of the plan amidst the changing dynamics in the operating environment. Based on the assessments made, the Bank has rearticulated its strategic plan, which led to subsequent organizational development interventions. A wide range of policy documents that seek to improve business practices and operational efficiency were produced and put to use during the reporting period. The Bank also endeavored to reach out to new markets, acquire and retain customers and encourage adoption and usage of its products and services. Various new and enhanced products were developed and introduced after local and international benchmarking. Pricing of products and services were also reviewed against value propositions resulting in revision on certain terms and tariffs. Regarding customer outreach, an additional eight full-fledged conventional branches, 11 dedicated IFB branches, and 10 outlets were opened in different parts of the Country. At the end of June 2021, the network of branches, including outlets, reached 454, a 6.8% growth compared to the previous year.

People Management and Development

The workforce of the Bank reached 10,492 as at 30 June 2021, of which 6,422 were permanent employees. With the growing business volume and outreach, the staff strength of the Bank went up by 5.24% compared to the previous year. Women comprise 30% of the workforce.

The fiscal year witnessed good progress in running the full cycle of the performance management system and encouraging strides were also made in succession management. Leadership development programs were run based on 360-degree assessments made among the executive and senior management members. Despite the impact of the COVID -19 pandemic on physical delivery of training programs, the Bank kept-up the momentum in talent development with targeted programs that enrolled 17,259 trainees at an outlay of more than Birr 26 million.

With regards to employee welfare, the Bank has continued investing in the wellbeing of its employees and their families. Particular attention was paid to safety and health as the COVID-19 pandemic continues to pose challenges on our social and economic wellbeing. Various protective measures have been taken. Measures taken to ensure health and safety of staff include disinfecting of work spaces and facilitation of staff vaccination, among others.

Information Technology

Dashen Bank has made significant strides in the IT front in the past year by successfully concluding projects that focused on enhancing availability, increasing automation and ensuring security. The Bank's ICT infrastructure is in a much stronger position than it was a year before with the successful completion of its data center relocation to a modern facility site and the implementation of disaster recovery setups.

The new modern data center, coupled with increased capacity in branch connections, is expected to enhance the service quality of business operations. In addition, the number of state of the art communication, collaboration tools and other solutions have been deployed through internal capabilities and acquisitions. The tools have enhanced business activities, reduced operational costs, avoided communication delays and strengthened the competitive position of the Bank by creating customer facing solutions and enhancements. In general, Dashen Bank is the leading bank in integrating its system with corporate customers' and other payment systems.

Risk Management and Compliance

Considering its importance, the Bank considers risk management as one of its strategic pillars. The risk management strategy is embedded in every operation of the Bank. During the fiscal year, risk management took center stage of the operation through identifying potential risk areas, properly measuring the likelihood and potential impacts, putting best-fit alternatives in place and continuously monitoring materialized and potential risks. In this regard, the Bank is continuously working on internalizing risk management practices across the organization through enhancing risk management processes into the mainstream of the Bank's culture. This has been done through continuous awareness creation training, risk registering, leading risk indicators as well as periodic risk assessment reports on credit, financing, liquidity, markets and operations of conventional banking and interest free banking of the Bank.

Governance

The Board of Directors and its sub-committees, i.e., Strategy, Audit, Risk and Human Resources executed their oversight duty in accordance with their Charters. The Board closely oversaw and gave directions on issues based on its mandate. These included approval of revised strategy plans, annual budgets, quarterly evaluation of performance progress reports, approval of various policies and strategic investments. The Board also critically reviewed and endorsed quarterly sub-committees' reports. Moreover, the Board conducted semiannually its full Board and sub-committees' evaluation.

Silver Jubilee

The year marked 25th anniversary of Dashen Bank, which was celebrated with various colorful functions. At grand occasions held at Sheraton Addis Hotel and Friendship Square, prominent customers, major partners, former board directors and presidents, as well as staff were recognized. Paying tribute to the magnificent mountain whose name the Bank borrowed, an annual mountain hiking festival was also launched in the Semien Mountain National Park.

Corporate Social Responsibility (CSR)

As a proud corporate citizen, Dashen Bank remains committed to go beyond the call of duty to respond with generosity in support of noble causes. The Bank supported public projects and social causes including, the Dine for Ethiopia' Project and the Annual Bego Sew Award. Financial support was extended to a local charity towards the construction of a school at Beyeda Woreda in North Gondar. The Bank further committed resources on feeding programs targeting disadvantaged sections of society, Covid-19 victims and health workers. It also supported environmental conservation in Lalibella while its Management and staff took part in the planting of trees at Entoto Natural Forest in collaboration with the Ethiopian Heritage Foundation. The Bank kept on encouraging entrepreneurship and supporting those with enterprising ideas but lacking resources through its Ethiopia Talent Power Series. The first episode of the program came to an end on the day Ethiopians welcomed the 2013 New Year. During the reporting period, the Bank spent about Birr 59 million in support of various worthy causes.

Going Forward

Though the outlook is clouded by conflict and international pressures, good prospects ahead include a robust crop harvest, continued positive momentum in exports, and encouraging prospects for FDI due to the imminent liberalization of economic sectors and privatization of public enterprises. With the wide opening of the banking industry for diverse players, tougher competition is ahead from bank and non-bank players. To overcome the challenges, the focus will be on talent and customer retention, selective channel expansion, product innovation and improved customer services. The Bank will leverage its hard-earned reputation, extensive market coverage, strong customer and resource base, and technological capabilities to drive sustained growth and profitability.

Sincerely,

Neway Beyene
Chairman, Board of Directors

thunes

smart. transfer. solutions.

Dashen Bank has partnered with Thunes a global cross boarder payment facilitator to enable Fast, Reliable and Affordable direct remittance to Amole Mobile Wallet, bank account and cash pickup.

Now, you can send money through all of these remittance companies enabled through Thunes

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AMOLE
Powered by DASHEN BANK

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Dashen Bank

Photo Gallery


27th Ordinary and 24th Extra-ordinary Shareholders Meeting

25th Annual Managers' Conference

Cooporate Social Responsibility

Addis Ababa Feeding Program

Tree Plantation at Entoto Natural Forest

Semien Mountain Vertical Run

Financed Projects

SBG Industry PLC

Base Ethiopia International Tour and Travel PLC

Refenti Apartment Complex

Komari Beverage PLC

Yadot Engineering Apartment

Afie Holding Co.Ltd Ethiopia Branch (Addis Ababa Silk Road General Hospital)

Dashen Bank S.C.
Report of the Shari'ah Advisory Committee
For the Financial Year Ended June 30, 2021

To the Shareholders, Customers and other Stakeholders of Dashen Bank S.C.

As part of the roles and responsibilities of the Shari'ah Advisory Committee ("the Committee") of Dashen Bank S.C. ("the Bank") stipulated under the Bank's Shari'ah Governance Framework and Charter of the Committee, we hereby submit its report for the financial year ended June 30, 2021:

The Committee dedicated its highest attention and time to oversee the Bank's Interest Free Banking ("IFB") window service at IFB Windows and dedicated IFB Branches. In the period under review, the Committee has held successive regular and extraordinary meetings to effectively fulfill its responsibilities. It has reviewed the Bank's IFB products, financing contracts, terms and conditions, etc. used at the Bank's IFB window service in order to determine that the relevant Shari'ah rules and principles are strictly applied. It has also issued *fatwas* (rulings) on all Shari'ah related matters referred to it by the Bank. The Committee has duly given feedbacks and directions to the Board of Directors, Management and Staff of the Bank on matters requiring their attention.

The committee has also regularly reviewed and deliberated on various reports and financial statements submitted to it by Executive Offices, Departments and Work Units of the Bank to determine whether the overall performance of the Bank's IFB window service is Shari'ah compliant and consistent with internationally accepted Islamic finance principles. The committee has accordingly given feedbacks and directions based on the reports and explanations given by the officials and experts of the Bank.

The Management of the Bank is responsible for ensuring that the Bank undertakes its IFB business in a manner consistent with Islamic law or Shari'ah principles as per the relevant directives of the National Bank of Ethiopia and best industry practices worldwide. It is our responsibility to form an independent opinion as to whether the Bank has complied with the Shari'ah rules, principles and with the specific *fatwas* or Shari'ah decisions made by us. Our opinion is primarily based on the reviews of regular reports and relevant documentations, the Bank's operations, audit reports and the explanations given by the Management.

In our opinion:

1) The Bank is exerting utmost efforts to comply with regulatory requirements as well as adopt best industry governance practices; and
2) The contracts, transactions and dealings entered by the Bank during the financial year ended June 30, 2021 that we have reviewed are in compliance with Shari'ah rules and principles.

Finally, the members of the Committee would like to appreciate the efforts and commitments of the Board of Directors, Management and Staff of the Bank towards strengthening Shari'ah compliance in the Bank's IFB window service.

Addis Ababa, October 7, 2021
On Behalf of the Shari'ah Advisory Committee

Sheikh Muhammed Yasin Ibrahim
(Chairman - SAC)

Ustaz Mahmoud Hassen Hussen
(D/Chairman - SAC)

Dr. Kemal Hajji-Geletu Mamme
(Member - SAC)

Ustaz Mustaffa Hamid Yussuf
(Member - SAC)

Ustaz Remedan Ahmed Abdo
(Member - SAC)

Sharik

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AUDITORS' REPORT

A.A. Bromhead Certified Audit Firm and UK Registered Auditor

A.A. Bromhead Certified Audit Firm and UK Registered Auditor
P.O. Box 709, Addis Ababa, Ethiopia, Telephone +251 11 552 42 85/552 45 58, Fax +251 11 552 4576
Email: -aabromhead@aa-bromhead.com

CONTENTS

Company information

Principal registration number: KK/AA/3/0001272/2004

NBE registration number: LBB/002/95

Board of Directors (As of 30 June 2021)	Official Designation	Appointment Date to current positions
Neway Beyene Mulatu	Chairman	Nov-14
Abebe Teklu G/Selassie	Member	Nov-17
Abdulmutelib Beyan Hamza	Member	Mar-21
Haile Assegide Haile	Member	Mar-21
Getaw Yalew Endeshaw	Member	Nov-17
Mekete Dagnew Anteneh	Member	Mar-21
Saeed Ahmed Hassen	Member	Nov-17
Dulla Mekonnen Mosissa	Member	Mar-21
Rahel Werede Amdebirhan	Member	Mar-21
Corporate Management Council Members:		
Asfaw Alemu Tessema	Chief Executive Officer	May-15
Yared Mesfin Belayneh	Chief Corporate Banking Officer	Jan-19
Henok Kebede Tadesse	Chief Banking Operations Officer	Jan-19
Shimelis Legesse Wossenie	Chief Information Officer	Sep-17
Tibebu Solomon Tadesse	Chief Retail and MSME Officer	Jan-19
Yihnalem Aknaw Meshesha	Chief Transformation and Customer Experience Officer	Jan-19
Alemneh Abebe Kabtyemer	Chief Finance Officer	Jan-19
Freegzi Berhane GebreMariam	Chief Corporate Service Officer	Jan-19
Eyerusalem Wagaw Dubale	Deputy Chief Human Resources Officer	Jan-19
Mesfin Bezu Yimam	Deputy Chief Interest Free Banking	Jan-19
Asfaw H/Mariam Tadesse	Director-Internal Audit Department	Feb-19
Zelalem Taddesse Feyisa	Director-Supply Chain Management Department	Feb-19
Ayele Teshome Mulatu	Director-Branch Operations & Central Processing Department	Feb-19
Andualem Belete Fenta	Director-Treasury Management Department	Jun-20
Dejene Getahun Tessema	Director-Enterprise Program Management Department	Jul-20
Getinet Dessie Berhie	Director-Enterprise Risk Management Compliance Department	Jul-16
Chanyalew Demissie Bekele	Director-Corporate Banking Department-Government Agencies, NGO's and International Trade Services Sector	Feb-19
Abeselom Mulugeta Ayele	Director-International Banking Department	Feb-19
Abiyot W/eyesus Teka	Director-Finance and Accounts Department	Aug-19
Tamirat Tilahun Haile	Director-Facilities Management Department	Feb-19
Anteneh Tesfaye Abebe	Director-Corporate Banking Department-Domestic Trade and Service Sector	Feb-19
Kasaye Eshetu Degife	Director-Alternate Channel Department	May-19
Tagel Mekonenn Degefu	Director-System Security Department	Jul-20
Afework Gugsa Mideksa	Director-Retail & MSME Banking Department	Aug-20
Hailu Moges Teklu	Director-Talent Development Department	Feb-19

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Company information (Continued)

Corporate Management Council Members (Continued)	Official Designation	Appointment Date to current positions
Tadesse Kasahun Desta	Director-Credit Recovery and Portfolio Management Department	Feb-19
Tesfaye Anene Kotiye	Director-Application Development & Support Department	Jul-20
Mulugeta Alebachew Chifraw	Director-Strategy and Innovation Department	Feb-19
Hewate Kefelegn Sahle	Director-Talent Management Department	Feb-19
Muhammed Ahamed Shehu	Director-HR Operations and Partnership Management Department	Feb-19
Tadiwos Lakemariam Mengesha	Director-Engineering Service Department	Feb-19
Fesha Berhanu Degaffe	Director-Corporate Banking Department-Manufacturing and Agriculture Sector	Feb-19
Meseret Yazachew Tawu	Director-Credit Analysis and Appraisal	Feb-19
Aberra Bekele Gebreyohannes	Director-Legal Services Department	Oct-16
Anteneh Tadesse Abebe	Director -IT Infrastructure Department	Dec-17
Aschalew Tamiru Gebremichael	Director, Marketing & Customer Experience Deptartment	Sep-19
Feysel Abdu Mohammed	Director- Corporate Interest Banking Department	Oct-20
Lidia Samuel Abebe	Executive Assistant to the CEO	Mar-19
Merihun Mekonnen Adame	Manager, Wolaita Sodo District	Jan-19
Fekadu Alemu Kenea	Manager, Adama District	Jan-19
Eshete Yemata Ayicheh	Manager, Bahir Dar District	Jan-19
Biruck Hailemeskel Kassaye	Manager, Dessie District	Jan-19
Nurit Mohammed Yesuf	Manager, Dire Dawa District	Jan-19
Elias Hussien Abegaz	Manager, East Addis District	Jul-20
Muluken Demissie Ketema	Manager, Jimma District	Nov-20
Ashenafi Berhanu Debeb	Manager, Mekelle District	Jan-19
Tamiru Girma Demssie	Manager, North Addis District	Jan-19
Abebe Zeleke Tewado	Manager, South Addis District	Jan-19
Halefom Seyoum Desta	Manager, West Addis Ababa District	Jan-19
Petros Moges Wondimu	Manager, Hawassa District	Oct-20

Independent auditor

A.A. Bromhead Certified Audit Firm
Jomo Kenyata Street, EECMY Building, 4th Floor
P.O. Box 709, Addis Ababa, Ethiopia

Corporate Registered Office

Dashen Bank S.C.
Headquarter Building
Sudan Street
Tel. +251-115-183091

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Addis Ababa

P.O Box 12752
SWIFT Code: DASHETAA
Addis Ababa, Ethiopia

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Company information (Continued)

Company Secretary

The Board Secretary
Dashen Bank S.C.
P.O Box 12752, Tel.+251-114-661380
Addis Ababa, Ethiopia

Correspondent banks

Citibank NA New York	111 Wall Street, New York, USA
Commerzbank Ag Frankfurt	Kaiserstrasse 16, Frankfurt AM, Germany
Standard Chartered Bank	1095 Avenue of the Americas, New York, USA
Banque Pour Le Commerce Et L'industrie-Mer Rouge	Rue Clochette, Djibouti
	10 place Lagarde - BP 88 - Djibouti
Bank of Africa group	Via Monte di Pietà, 8,20121 Milano
Intesa Sanpaolo spa, (Head Office)	21, Boulevard Haussmann,BP 265,Paris, 75427
The Bank of Tokyo-Mitsubishi, UFJ	2-7-1, Marunouchi, Chiyoda-ku, Tokyo, Japan
EBI SA (LA DEFENSE)-ECOBANK	Les Collines de l'Arche,76 Route De La Demi-Lune,Paris-La Defense, 92057
The Standard Bank of South Africa Limited	9th Floor Standard Bank Centre 5 Simmonds Street Johannesburg Gauteng 2001 South Africa
SWED Bank	Landsvägen 40, 172 63 Sundbyberg. Postal address: 105 34 Stockholm
Commercial Bank of Dubai	Al Ittihad Street ,Port Saeed, P.O.Box 2668 Dubai, Swift Code-CBDUAEAD
CAC International Bank	Immeuble Dar Al-Karam,Ruede Marseille, Djibouti city, Swift code CACDDJJD

Principal bankers in Ethiopia

National Bank of Ethiopia	Sudan Avenue. P.O.Box: 5550, Addis Ababa, Ethiopia

Actuaries

QED Actuaries and Consultants (Pty) Ltd
P.O.Box 413313, Craighall 2024
1st Floor, The Bridle, Hunts End Office Park, 38 Wierda Road West, Wierda Valley
Telephone: +27 11 038 3754, +27 60 673 2994
Website: www.qedact.com
Email: craigfalconer@qedacturial.com
Sandton, Johannesburg
South Africa

Sharia Advisory Committee:

(Appointed from 1 December 2017)
Kemal Geletu Mamme (PhD)
Muhammed Yasin Ibrahim (Sheikh)
Mahmoud Hassen Hussen (Ustaz)
Mustaffa Hamid Yussuf (Ustaz)
Remedan Ahmed Abdo (Ustaz)

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Directors' report

The Directors submit their report together with the financial statements for the year ended 30 June 2021 to the shareholders of Dashen Bank Share Company ("Dashen" or the "Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation and address

Dashen Bank Share Company was incorporated in Ethiopia in 1995 as a privately owned financial institution and is domiciled in Ethiopia.

Principal activities

The Bank is principally engaged in the provision of a diverse range of financial products and services to a corporate, retail and SME clients based in the Ethiopian Market.

Share capital

The Bank has a paid up capital of ETB 4,387,996,000 (2020: ETB 3,479,224,000) divided into 4,387,996 (2020: 3,479,224) ordinary shares of par value of ETB 1,000.

Operating Results

The Bank's results for the year ended 30 June 2021 are set out on page 37. The profit for the year has been transferred to retained earnings. The summarised results are presented below:

	2021 ETB'000	2020 ETB'000
Net interest income	5,004,174	3,365,136
Profit before tax	2,426,804	1,789,930
Income tax expense	(700,557)	(252,997)
Profit for the year	1,726,247	1,536,933
Other comprehensive income, net of taxes	(17,261)	(9,657)
Total comprehensive income for the year	1,708,986	1,527,276
Basic EPS	471	490

Directors

The Board of Directors who held office during the year and to the date of this report are set out on page 28.

Neway Beyene Mulatu
Chairman, Board of Directors
30 September 2021

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Statement of Directors' responsibilities

The Commercial Code of Ethiopia 2021 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. The Code also requires the Directors to ensure that the Bank keeps proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRSs), the requirements of the Commercial Code of Ethiopia 2021, the Banking Business Proclamation No. 592/2008 and Banking (Amendment) Proclamation No. 1159/2019, NBE Directives and the Accounting and Auditing Board of Ethiopia's instructions of 30 October 2019, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRSs, the requirements of the Commercial Code of Ethiopia 2021, the Banking Business Proclamation No. 592/2008 and Banking (Amendment) Proclamation No. 1159/2019, NBE Directives and the Accounting and Auditing Board of Ethiopia's instructions of 30 October 2019. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors also accept responsibility for:

i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) Selecting suitable accounting policies and applying them consistently; and

iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

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

Signed on behalf of the Directors by:

Neway Beyene Mulatu	Asfaw Alemu Tessema
Chairman, Board of Directors	Chief Executive Officer
30 September 2021	

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Independent Auditor's Report to the Shareholders of Dashen Bank Share Company

Report on the financial statements

Opinion

We have audited the accompanying financial statements of Dashen Bank Share Company ("the Bank") set out on pages 10 to 87, which comprise the statement of financial position as at 30 June 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Emphasis of Matter

We draw attention to notes 14(a) and 15, which describe the uncertainty of the existence of the ETB 151 million cash in hand and the ultimate status of the ETB 1.7 billion loans and advances and IFB financing balances due to the Tigray Region's current conflict. Our opinion is not modified in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Nature of key audit matter

1. Significant management's judgments, estimates and assumptions in the determination of expected credit loss (ECL).

The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgements or estimates made by the management are not accurate.

- Significant Increase in Credit Risk (SICR) - the Bank's identification of a significant increase in credit risk (SICR) based on the National Bank of Ethiopia (NBE)'s Directive No. SBB/69/2018 as qualitative indicators for identifying a significant increase in credit risk are highly judgemental and can materially impact the ECL recognised for loans and advances. The SICR determines whether to apply the 12 months ECL or the lifetime ECL.
- The Bank has applied the NBE's definition for "Non-performing" loans and advances to determine defaults of loans and advances and has applied probability of default (PD) of 100% for loans and advances that are classified under "Sub-Standard", "Doubtful" and "Loss".
- To estimate the loss given default (LGD), assumptions and estimates are made in the determination of the value of collateral and the corresponding sales proceeds as well as the time of the sales.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Independent Auditor's Report to the Shareholders of Dashen Bank Share Company (Continued)

Report on the financial statements (Continued)

Key audit matters (Continued)

Nature of key audit matter (Continued)

- Economic base case – IFRS 9 requires the Bank to measure ECL on a forward-looking basis, incorporating future macro-economic variables (MEVs) reflecting a range of future conditions, that might differ from expectations.
- Complex model used – Complex statistical matrices are used in the determination of probability of default (PD).
- The Bank is not in a position to assess the impact of the uncertainties arising from events in Northern Ethiopia, particularly on its cash in hand and loans and advances and IFB financing balances.

The effect of these matters is that, as part of our risk assessment, we determined that the value of ECL has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included:

- Understanding the methodology used to determine the ECL;
- Ascertaining the completeness of data used in the determination of ECL;
- Ascertaining the correctness of the classification of financial assets to stages, stage 1 or 2 or 3;
- For a sample of loans and advances, the values of collateral used in the determination of LGD were checked with the collateral values assessed by management;
- For a sample of loans and advances, the accuracy of LGD and ECL were tested for accuracy; and
- Reviewing the adequacy of disclosures of management judgments, estimates and assumptions;
- We have included an 'Emphasis of matter' paragraph in the audit report to draw attention.

Our results

We considered the credit impairment charge, the provision recognised and the related disclosures to be acceptable.

2. Information Technology (IT) Access management

Our audit approach relied extensively on automated controls and, therefore, on the effectiveness of controls over IT systems. Access management controls are critical to ensure that changes to applications and underlying data are made in an appropriate manner. Appropriate access and change controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data.

Our response

Access rights were tested over applications, operating systems and databases relied upon for financial reporting. Specifically, the audit tested that:

- New access requests for joiners were properly reviewed and authorised;
- User access rights were removed on a timely basis when an individual left or changed role;
- Access rights to applications, operating systems and databases were periodically monitored for appropriateness;
- Highly privileged access was restricted to appropriate personnel; and
- Existence of strict procedures on password policies, security configurations, controls over changes to code, data and configuration.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Independent Auditor's Report to the Shareholders of Dashen Bank Share Company (Continued)

Report on the financial statements (Continued)

Key audit matters (Continued)

2. Information Technology (IT) Access management (Continued)

Our results

We considered the user access management control to be acceptable.

Other information

The Directors are responsible for the other information, which comprises the Directors' report in accordance with Article 315(6)(c) of the Commercial Code of Ethiopia of 2021. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the audit work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The management of the Bank is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Commercial Code of Ethiopia 2021, the Banking Business Proclamation No. 592/2008 and Banking (Amendment) Proclamation No. 1159/2019, NBE's Directives and the Accounting and Auditing Board of Ethiopia's instructions of 30 October 2019, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

i) Identified and assessed 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.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Independent Auditor's Report to the Shareholders of Dashen Bank Share Company (Continued)

Report on the financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements (Continued)

ii) Obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

iii) Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

v) Evaluated 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.

We communicated 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 identified during our audit.

Report on Other Legal and Regulatory Requirements

We have no comment to make on the report of your Directors so far as it relates to these financial statements and pursuant to Article 349 (1 and 2) of the Commercial Code of Ethiopia 2021, recommend approval of them.

A.A. Bromhead

A.A. Bromhead Certified Audit Firm and
UK Registered Auditor
Auditor's of Dashen Bank Share Company

30 September 2021
Addis Ababa

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Statement of profit or loss and other comprehensive income

	Notes	2021 ETB'000	2020 ETB'000
Interest income	5	7,964,250	5,824,000
Interest expense	6	(2,960,076)	(2,458,864)
Net interest income		5,004,174	3,365,136
Fees and commission income	7	2,015,118	1,512,912
Fees and commission expense	7	(95,587)	(80,609)
Net fee and commission income		1,919,531	1,432,303
Other operating income	8	280,046	221,210
(Loss) on foreign exchange		(1,043,069)	(341,911)
Total operating income		**6,160,682**	**4,676,738**
Loan impairment (charge)/ reversal	9	(248,779)	69,976
Impairment charge on IFB financing	9	(2,769)	(179)
Impairment losses on other financial assets	10	(2,541)	(7,012)
Net operating income		**5,906,593**	**4,739,523**
Employee benefits expense	11	(2,145,030)	(1,734,308)
Other operating expenses	12	(1,334,759)	(1,215,285)
Profit before income tax		**2,426,804**	**1,789,930**
Income tax expense	13(a)	(700,557)	(252,997)
Profit for the year		**1,726,247**	**1,536,933**
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement (loss) on retirement benefits obligations	24(c)	(2,434)	(11,682)
Remeasurement (loss) on financial assets at FVTOCI	16(a)	(22,224)	(2,114)
Deferred tax income	13(a)	7,397	4,139
		(17,261)	**(9,657)**
Total comprehensive income for the year		**1,708,986**	**1,527,276**
Earnings per share (EPS):			
Basic EPS	26	**471**	**490**
Diluted EPS	26	**471**	**490**

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The notes on pages **42** to **114** are an integral part of these financial statements.

Dashen Bank Share Company
Report and Financial Statements
As at 30 June 2021

Statement of financial position

	Notes	2021 ETB'000	2020 ETB'000
ASSETS			
Cash and balances with banks	14(a)	7,991,325	6,061,280
Reserve with National Bank of Ethiopia	14(b)	3,729,813	2,679,866
Loans and advances to customers	15(a)	61,650,172	42,067,537
IFB financing	15(b)	2,253,108	542,162
Investment security:			
Financial assets at fair value	16(a)	112,138	95,778
Debt securities at amortised cost	16(c)	12,072,387	11,125,720
Other assets	17(a)	1,625,124	806,548
Investment properties	19	764,122	780,996
Intangible assets	20	211,454	91,618
Property and equipment	21	4,171,696	3,881,642
Deferred tax assets	13(e)	115,621	128,163
Total Assets		**94,696,960**	**68,261,310**
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	22	74,553,506	53,493,855
Current income tax	13(d)	560,667	380,839
Other liabilities	23	9,211,274	5,866,178
Defined benefit obligation	24(a)	246,424	205,866
Total liabilities		**84,571,871**	**59,946,738**
EQUITY			
Share capital	25	4,387,996	3,479,224
Retained earnings	27	1,161,185	796,315
Reserve for IFRS	28	922,013	951,405
Legal reserve	29	2,800,992	2,369,430
Special reserve	30	100	100
Regulatory credit risk reserve	31	895,233	743,267
Other reserves	32	(42,430)	(25,169)
Total equity		**10,125,089**	**8,314,572**
Total liabilities and equity		**94,696,960**	**68,261,310**

The financial statements on pages 37 to 114 were approved and authorised for issue by the Board of Directors on 30 September 2021 and were signed on its behalf by:

Neway Beyene Mulatu **Chairman, Board of Directors**	A.A Bromhead Certified Audit Firm P.O. Box 709 Addis Ababa	**Asfaw Alemu Tessema** **Chief Executive Officer**

The notes on pages 42 to 114 are an integral part of these financial statements.

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Statements of changes in equity

	Notes	Share capital ETB'000	Retained earnings ETB'000	Legal reserve ETB'000	Reserve for IFRS ETB'000	Regulatory credit risk reserve ETB'000	Other reserve ETB'000	Special reserve ETB'000	Total ETB'000
As at 1 July 2019		2,704,558	635,731	1,985,197	1,071,400	465,306	(15,512)	100	6,846,780
Prior years adjustment	27	-	(113,681)	-	-	-	-	-	(113,681)
Adjustment on the IFRS 16 adoption	28	-	-	-	(86,421)	-	-	-	(86,421)
As restated		2,704,558	522,050	1,985,197	984,979	465,306	(15,512)	100	6,646,678
Profit for the year	27	-	1,536,933	-	-	-	-	-	1,536,933
Other comprehensive income:									
Remeasurement (loss) on retirement benefits obligations	32	-	-	-	-	-	(8,177)	-	(8,177)
Change in fair value of financial assets at fair value through OCI	32	-	-	-	-	-	(1,480)	-	(1,480)
		-	**1,536,933**	-	-	-	**(9,657)**	-	**1,527,276**
Transaction with owners in their capacity as owners and transfers within equity:									
Transfer to legal reserve	29	-	(384,233)	384,233	-	-	-	-	-
Transfer to capital	27	-	(556,239)	-	-	-	-	-	(556,239)
Shares issued		774,666	-	-	-	-	-	-	774,666
Transfer to Regulatory Reserve	31	-	(277,961)	-	-	277,961	-	-	-
Dividends paid	27	-	(77,992)	-	-	-	-	-	(77,992)
Reversal of amount transferred to paid-up capital upon collection of the cash from shareholders	28	-	-	-	1,683	-	-	-	1,683
Transfer to retained earnings	28	-	35,257	-	(35,257)	-	-	-	-
Directors' remuneration	27	-	(1,500)	-	-	-	-	-	(1,500)
		774,666	(1,262,668)	384,233	(33,574)	277,961	-	-	140,618
As at 30 June 2020		**3,479,224**	**796,315**	**2,369,430**	**951,405**	**743,267**	**(25,169)**	**100**	**8,314,572**

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Statements of changes in equity (Continued)

	Notes	Share capital ETB'000	Retained earnings ETB'000	Legal reserve ETB'000	Reserve for IFRS ETB'000	Regulatory credit risk reserve ETB'000	Other reserve ETB'000	Special reserve ETB'000	Total ETB'000
As at 1 July 2020		3,479,224	796,315	2,369,430	951,405	743,267	(25,169)	100	8,314,572
Prior years adjustment	28	-	-	-	(10,305)	-	-	-	(10,305)
Profit for the year	27	-	1,726,247	-	-	-	-	-	1,726,247
Other comprehensive income:									
Remeasurement (loss) on retirement benefits obligations	32	-	-	-	-	-	(1,704)	-	(1,704)
Change in fair value of financial assets at fair value through OCI	32	-	-	-	-	-	(15,557)	-	(15,557)
		3,479,224	2,522,562	2,369,430	941,100	743,267	(42,430)	100	10,013,253
Transaction with owners in their capacity as owners and transfers within equity:									-
Transfer to legal reserve	29	-	(431,562)	431,562	-	-	-	-	-
Transfer to capital	27	514,147	(514,147)	-	-	-	-	-	-
Shares issued		394,625	-	-	-	-	-	-	394,625
Transfer to Regulatory Reserve	31	-	(151,966)	-	-	151,966	-	-	-
Dividends paid	27	-	(280,668)	-	-	-	-	-	(280,668)
Transfer to retained earnings	28	-	19,087	-	(19,087)	-	-	-	-
Directors' remuneration	27	-	(2,121)	-	-	-	-	-	(2,121)
		908,772	(1,361,377)	431,562	(19,087)	151,966	-	-	111,836
As at 30 June 2021		4,387,996	1,161,185	2,800,992	922,013	895,233	(42,430)	100	10,125,089

The notes on pages 42 to 114 are an integral part of these financial statements.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Statement of cash flows

	Notes	2021 ETB'000	2020 ETB'000
Cash flows from operating activities			
Cash generated from operations	33	3,949,002	1,545,982
Income tax paid	13(d)	(500,790)	(242,085)
Defined benefit paid	24(a)	(7,979)	(7,212)
Directors' remuneration paid	27	(2,121)	(1,500)
Net cash generated from operating activities		**3,438,112**	**1,295,185**
Cash flows from investing activities			
(Purchase) / Collection of bills, bonds and time deposits	16(c)	(946,956)	1,175,334
Purchase of shares	16(a)	(38,584)	(7,995)
Purchase of intangible assets	20	(199,291)	(11,602)
Purchase of property and equipment	21(a)	(210,474)	(335,303)
Payment for right of use asset	21(b),37	(232,844)	(72,903)
Proceeds from sale of property and equipment	33	6,125	7,505
Net cash (used in)/ generated from investing activities		**(1,622,024)**	**755,036**
Cash flows from financing activities			
Dividends paid	27	(280,668)	(77,992)
Proceeds from issued shares		394,625	220,110
Net cash generated from financing activities		**113,957**	**142,118**
Net increase in cash and cash equivalents		**1,930,045**	**2,192,339**
Cash and cash equivalents at 1 July		6,061,280	3,868,941
Cash and balances with banks at 30 June	14(a)	**7,991,325**	**6,061,280**

The notes on pages 42 to 114 are an integral part of these financial statements.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Notes to the financial statements

1 General

Dashen Bank Share Company ("Dashen" or the "Bank") is a private Commercial Bank domiciled in Ethiopia. The Bank was established on 20 September 1995 in accordance with the Commercial Code of Ethiopia 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank's registered office is:

Dashen Bank Share Company Headquarters Building
Sudan Street
Addis Ababa
Ethiopia

The Bank is principally engaged in the provision of a diverse range of financial products and services to corporate, retail and SME clients based in the Ethiopian market.

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The financial statements for the year ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Additional information required by the national regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements have been prepared on the going concern basis under the historical cost concept. All values are rounded to the nearest thousand, except when otherwise indicated. The financial statements are presented in thousands of Ethiopian Birr (ETB' 000).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions change. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed.

2.2.1 Going concern

The financial statements have been prepared on a going concern basis. The management have no doubt that the Bank will remain in existence for the next 12 months.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.2.2 Changes in accounting policies and disclosures

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

New Standards or amendments	Effective for annual periods beginning on or after
Amendments to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification.	1-Jul-20

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

New Standards or amendments	Effective for annual periods beginning on or after
Reference to the Conceptual Framework – Amendments to IFRS 3	1-Jan-22
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	1-Jan-22
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	1-Jan-22
IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1-Jan-22
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1-Jan-23
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1-Jan-23
Definition of Accounting Estimates - Amendments to IAS 8	1-Jan-23
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1-Jan-23

Management is of the view that the adoption of these standards, amendments and interpretations will not have a significant effect on its financial statements when they become effective.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.3 Foreign currency translation

a) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The functional currency and presentation currency of the Bank is the Ethiopian Birr (ETB).

b) *Transactions and balances*

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

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

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

2.4 Recognition and measurement of income and expenses

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business, net of taxes or duty.

Revenue is recognised at an amount that reflects the consideration to which the Bank expects to be entitled for performing its services for a customer. Income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises income when it has fulfilled its obligation and the right to receive the related sum as assured.

Revenue comprises the fair value of considerations received or receivable in the ordinary course of the Bank's activities. Income is recognised when it is probable that the economic benefits associated with a transaction will flow to the Bank and the amount of income, and associated costs incurred or to be incurred can be measured reliably.

The Bank earns income from interest on loans given to domestic trade and services, import, export, transport, real estate, building and construction, manufacturing, agriculture and personal loans, commission and service charges.

The Bank recognises income from Interest Free Banking (IFB) services at the fair value of considerations received or receivable.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2021

Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.4 Recognition of income and expenses (Continued)

2.4.1 Interest and similar income and expense

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

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

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

2.4.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on government bills and bonds are included in the measurement of the effective interest rate. Other fees and commission income (for example commission on purchase orders, Cash Payment Orders (CPOs), letters of guarantees etc) are recognised as the related services are performed.

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

2.4.3 Dividend income

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

2.4.4 Foreign exchange revaluation gains or losses

These are gains and losses arising on settlement and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency's spot rate of exchange at the reporting date. The monetary assets and liabilities include financial assets within the external reserves, foreign currencies deposits received and held on behalf of third parties.

2.5 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank 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 fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

a) Initial recognition and measurement (Continued)

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Other operating income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised.

If fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss). In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

b) Classification and subsequent measurement

(i) Financial assets

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

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

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

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

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

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

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

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

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement

b) Classification and subsequent measurement (Continued)

(i) Financial assets (continued)

Business model assessment

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

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.

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

b) Classification and subsequent measurement (Continued)

(ii) *Financial liabilities*

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

A financial guarantee is an undertaking/commitment that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL are subsequently measured at the higher of: the amount of the obligation under the guarantee, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

(iii) *Classification of financial assets and financial liabilities*

The following table shows the measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 30 June 2021.

Financial assets	**Classification under IFRS 9**	**Original carrying amount ETB'000**	**Remeasure-ment ETB'000**	**Carrying Amount under IFRS 9 ETB'000**
Cash, balances with banks and reserve with NBE	Amortised cost	11,721,497	(359)	11,721,138
Loans and advances to customers	Amortised cost	61,992,289	(342,117)	61,650,172
IFB financing	Amortised cost	2,256,056	(2,948)	2,253,108
Investment securities: Equity instruments	FVOCI	108,032	4,106	112,138
Investment securities: Debt instruments	Amortised cost	12,073,292	(905)	12,072,387
Other financial assets at amortised cost	Amortised cost	300,912	(8,246)	292,666
Total financial assets		**88,452,078**	**(350,469)**	**88,101,609**
Financial liabilities				
Deposits from customers	Amortised cost	74,553,506	-	74,553,506
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	8,184,324	290	8,184,614
Total financial liabilities		**82,737,830**	**290**	**82,738,120**

c) *Impairment*

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

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

- financial assets that are debt instruments; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

(iii) Classification of financial assets and financial liabilities (Continued)

c) Impairment (Continued)

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

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

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

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

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

(i) Measurement of ECL

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

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

(ii) Restructured financial assets

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

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

(iii) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets').

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

(iii) Classification of financial assets and financial liabilities (Continued)

c) Impairment (Continued)

(iii) Credit-impaired financial assets (Continued)

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; 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 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 loan that is overdue for 90 days or more is considered as credit-impaired even when the regulatory definition of default is different.

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

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

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

(v) Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment 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 Bank's procedures for recovery of amounts due.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

(iii) *Classification of financial assets and financial liabilities (Continued)*

c) *Impairment (Continued)*

(vi) Non-integral financial guarantee contracts

The Bank 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.

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

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

d) **Derecognition**

(i) Financial assets

Financial asset are derecognised when:

- The contractual right to the cash flows from the financial asset expires, or
- 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
- The Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 recognised in OCI are recognised in profit or loss.

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

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

(ii) Financial liabilities

Financial liabilities are derecognised when the contractual obligations are discharged or cancelled, or expire.

e) **Modifications of financial assets and financial liabilities**

(i) Financial assets

If the terms of a financial asset are modified, then the Bank 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 derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

e) Modifications of financial assets and financial liabilities (Continued)

(i) Financial assets (Continued)

- 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 derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it would first consider whether a portion of the asset should be written off before the modification takes place.

Where the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank would first recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognise the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification to adjust the gross carrying amount of the modified financial asset is amortised over the remaining term of the modified financial asset.

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

(ii) Financial liabilities

The Bank derecognise 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 recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Where the modification of a financial liability is not accounted for as derecognition, then the amortised 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 recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

f) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

g) Designation at fair value through profit or loss

(i) Financial assets

At initial recognition, the Bank may designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

(ii) Financial liabilities

The Bank designates 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.

2.6 Net interest income

a) Effective interest rate and amortised cost

Interest income and expense are recognised 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 amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

b) Amortised cost gross carrying amount

The 'amortised 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 amortisation 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 1 July 2018).

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

c) Calculation of interest income and expense

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 amortised 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 amortised 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 amortised 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.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.6 Net interest income (Continued)

d) Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

2.7 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents include cash and restricted balances with National Bank of Ethiopia.

2.8 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

Depreciation is calculated using the straight-line method to allocate costs less residual values over the estimated useful lives of property and equipment as follows:

Asset class	Depreciation rate (years)
Buildings	50 years
Elevator	15 years
Motor vehicles	10 years
Computer and related items	7 years
Medium-Lived furniture and fittings	10 years
Long-Lived furniture and fittings	20 years
Short-Lived equipment	5 years
Long-Lived equipment	10 years

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The Bank commences depreciation when the asset is available for use. Freehold land is not depreciated.

Capital work-in-progress is not depreciated as the assets are not yet available for use.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.8 Property and equipment (Continued)

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalised development costs, are not capitalised 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 amortised over the useful economic life. The amortisation period and the amortisation 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 amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate line item in the profit or loss.

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

	Useful life
Intangibles	6 years
Intangibles-Contract based	contract period

2.10 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 Bank 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 Bank 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 Bank 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 valuers who hold recognised 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 properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Investment properties are derecognised when they are disposed. Gains or losses arising from disposal of investment property are determined as the difference of the net disposal proceeds and the carrying amount of the asset and recognised in profit or loss statement.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.11 Non-current assets held for sale and discontinued operations

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

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

2.12 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

2.13 Other assets

Other assets are generally defined as claims held against other entities for the future receipt of money, goods or services and also includes stock of materials and supplies. Other assets in the Bank's financial statements include the following:

(a) Prepayments

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

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.13 Other assets (Continued)

(b) Other receivables

Other receivables are recognised upon the occurrence of events or transactions as they arise and cancelled when payment is received.

The Bank's other receivables are rent receivables and other receivables from debtors.

2.14 Fair value measurement

The Bank measures financial instruments, such as investment in financial instruments classified as FVTOCI and investments in financial instruments classified as FVTPL at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are, summarised in the following notes:

- Significant estimates and assumptions, disclosures for valuation methods (Note 3 and Note 4.6.1).
- Quantitative disclosures of fair value measurement hierarchy (Note 4.6.2).
- Financial instruments (including those carried at amortised cost) (Note 4.6.2).

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

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

The principal or the most advantageous market must be accessible to / by the Bank.

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

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

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

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

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

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

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

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.15 Employee benefits

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

(a) *Defined contribution plan*

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian Pension of Private Organisation Employees Proclamation no. 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank, respectively. Besides, 4% of salary is held as provident fund in the name of these employees.

ii) provident fund contribution, funding under this scheme is 7% and 15% by employees and the Bank, respectively;

Both schemes are based on the employees' salaries. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

(b) *Profit-sharing and bonus plans*

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

(c) *Defined benefit obligations*

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

This qualifies as a defined benefit plan. Typically defined benefit plans define an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

2.16 Provisions

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

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.16 Provisions (Continued)

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

2.17 Share capital

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

2.18 Leases

Lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. This definition is more focused on who controls the right-of-use asset.

(a) Bank as a lessee

The Bank implemented a single accounting model, requiring lessees to recognise assets and liabilities for all leases excluding exceptions listed in the standard. The Bank elected to apply exemptions for short term leases in relation to leases of residential buildings.

Based on the accounting policy applied, the Bank recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:
– the amount of the initial measurement of the lease liability,
– any lease payments made at or before the commencement date, less any lease incentives,
– any initial direct costs incurred by the lessee,
– an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful lives (lease term). The Bank depreciates the right-of-use asset from the commencement date to the end of the useful life of the right-of-use asset.

A lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:
– fixed payments, less any lease incentives receivable;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease;

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.18 Leases (Continued)

(a) Bank as a lessee (Continued)

A lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

– fixed payments, less any lease incentives receivable;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease;

Variable lease payments not included in the initial measurement of the lease liability are recognised directly in the profit or loss.

Lease payments are discounted using the Bank's incremental borrowing rate of 7%. The lease term determined by the Bank comprises:

– non-cancellable period of lease contracts,
– periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option,
– periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Bank measures the lease liability by:

– increasing the carrying amount to reflect interest on the lease liability,
– reducing the carrying amount to reflect lease payments made, and
– re-measuring the carrying amount to reflect any reassessment or lease modifications

(b) Bank as a lessor

The Bank makes assessment of leases on the commencement date of leases and classifies them as either operating or finance leases. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Examples of situations where the risks and rewards of ownership are considered as having been transferred to the lessee are as follows:

– the lease transfers ownership of the asset to the lessee by the end of the lease term,
– the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
– the lease term is for at least 3/4 of the economic life of the asset even if title is not transferred,
– at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset; or
– the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.19 Income tax

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

2.20 Joint arrangements

Under IFRS 11 Joint Arrangements: investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Dashen Bank has a joint operation.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Bank undertakes its activities under joint operations, the Bank as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.20 Joint arrangements (Continued)

The Bank accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Bank transacts with a joint operation in which the Bank is a joint operator (such as a sale or contribution of assets), the Bank is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Bank's financial statements only to the extent of other parties' interests in the joint operation.

When the Bank transacts with a joint operation in which the Bank is a joint operator (such as a purchase of assets), the Bank does not recognise its share of the gains and losses until it resells those assets to a third party.

Details of the joint operation are set out in note 18.

2.21 Comparatives

Where necessary, comparative information has been adjusted to conform with changes with current year's presentation.

3 Significant accounting judgements, estimates and assumptions

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

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

- Capital management Note 4.5
- Financial risk management Note 4
- Sensitivity analyses disclosures Notes 4.4.2

3.1 Judgements, Estimates and assumptions

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

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

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Notes to the financial statements (Continued)

3 Significant accounting judgements, estimates and assumptions (Continued)

3.1 Judgements, Estimates and assumptions (Continued)

Impairment losses on loans and advances

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

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

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

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.6 for further disclosures.

Depreciation and carrying value of property and equipment

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

Impairment of non-financial assets

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

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Notes to the financial statements (Continued)

3 Significant accounting judgements, estimates and assumptions (Continued)

3.1 Judgements, Estimates and assumptions (Continued)

IFRS 16 leases

The application of IFRS 16 requires the Bank to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets. These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Bank generally comprises the non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option.

The Bank will continue to monitor these assumptions in the future as a result of a review of the industry practice and the evolution of the accounting interpretations in relation to estimation of the lease terms.

The present value of the lease payment is determined using the discount rate representing the rate of nominal interest rate the Bank pays to depositors of savings accounts. The expenses relating to leases for which the Bank applied the practical expedient described in IFRS 16 (leases with the contract term of less than 12 months) are recognised in profit or loss.

Taxes

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

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

4 Financial risk management

4.1 Introduction

Management recognises that the banking industry experiences significant and rapid change, including increased competition from other non-bank financial services providers. The industry is also subject to liquidity requirement changes, reserve requirement changes, interest rate changes, changes in banking laws and regulations and foreign currency rate changes. Therefore, the management recognises that a comprehensive credit, liquidity, operational and market risk policy is essential to effectively manage the Bank's risks and to meet regulatory requirements. The Bank earnestly strives to apply best practices in identifying, evaluating, and cost-effective controlling of risks to ensure that any residual risks are at an acceptable level. Whilst it is not possible to eliminate risk absolutely, the Bank actively promotes and applies best practices at all levels and to all of its activities, including its business relationship with external partners. With this framework, the Bank ensures that:

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.1 Introduction (Continued)

a) The Bank's risk exposure is within the limits established by the Board of Directors (BoD)
b) Risk taking decisions are in line with the business strategy and objectives set by the BoD
c) The expected payoffs compensate the risks taken
d) Risk taking decisions are explicit and clear
e) Availability of sufficient capital for the prevailing risk exposure

In line with this, the Bank considers risk management as an integral part of its day-to-day core business activities.

4.1.1 Risk management structure

Philosophy

The Bank duly strives for the realisation of the following:

- Create awareness and embed risk management into the culture of the Bank through regular risk awareness activities, training, open communication lines among units, continuous interaction with senior management, and employing other feasible means
- Manage risks in accordance with best practices.
- Be responsive to changing social, political, environmental and legislative requirements, whilst effectively managing the related risks and exploiting opportunities
- Prevent loss, interruptions, injury, damage and failure with a view to reducing unwarranted costs
- Make every employee to be a 'risk manager'
- Specific risk owners are responsible to manage the type of risks associated with their respective functions
- Make the Risk Management and Compliance Department independent from the risk taking functions in order to ensure the check and balance system and enable the department to oversee the level of risk taken independent of the risk taking activities.

Risk management committees

The Bank has the following management sub-committees with respect to different risk classifications:

- Credit Risk Management Committee
- Asset Liability Management Committee / (ALCO)
- Operation Risk Management Committee

Each committee has established its own terms of reference which specifies the activities and responsibilities of the respective committees. The roles in relation to risk management of each committee are indicated in the risk management procedures.

4.1.2 Risk measurement and reporting systems

Internal control and risk management

An effective internal control and risk management is the foundation of safe and sound banking. When risk management is properly designed and consistently enforced it helps management to maximise profit, safeguard the Bank's resources, produce reliable financial reports, increase employee satisfaction, and comply with laws and regulations. It also reduces the possibility of significant errors and irregularities, as well as assist in their timely detection when they do occur.

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.1 Introduction (Continued)

4.1.2 Risk measurement and reporting systems (Continued)

Risk impact assessment matrix

The following risk impact level and consequences have been used in determining the four major risks and their sub risk parameters level of impact:

Risk impact level	Consequences	Remark
Very Low	Insignificant	Very minimal or minor impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be with very short term effect and can be very easily and quickly fixed.
Low	Minor	Very minimal or minor impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be with short term effect and may be easily and quickly fixed.
Moderate	Moderate	Minor impact on strong financial position, customer satisfaction, efficient business process and employee satisfaction. May be with more than short term effect that can be expensive to recover.
High	Major	Significant impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be very difficult and possibly takes medium term to recover.
Very High	Extreme	Critical impact on strong financial position, customer satisfaction, efficient business process and employee satisfaction. May be very difficult and possibly takes more than medium term time span to recover.

Risk tolerance

Management desires to manage risks at a level that permits the Bank to grow and achieve its strategic business objectives, while conducting business in a safe and sound manner, complying with all applicable regulations, and provide a return to shareholders that meets or exceeds their expectations. The Board of Directors sets risk tolerance levels annually through several means. The overall risk environment of the Bank is considered annually in conjunction with the strategic planning process of the Board of Directors and management. In this regard, the Strategic Plan includes a Risk Appetite Statement. Specific levels of risk tolerance within key business units, such as credit/lending, interest rate and liquidity, are set annually through the review, and if necessary, amendment of the Bank's business programs related to those areas. Specific risk tolerance limits and guidelines are included, as appropriate, in the risk procedures.

4.1.3 Risk assessment

An effective internal control program cannot be structured without an understanding of the Bank's risks and exposures and an effective risk management process. Risk management is defined as the ability of the Bank to identify, measure, monitor, assess, and control risks. The Bank, through its Board, management, and RMCD, is able to respond to changing circumstances and to address risks that might arise from changing business or economic conditions, a decline in the effectiveness of internal controls; the initiation of new business activities or the offering of new products and services. The risk assessment begins with an evaluation of inherent risk.

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.1 Introduction (Continued)

4.1.3 Risk assessment (Continued)

Risks in the below four categories described are evaluated throughout the Bank including sub-risk in each categories.

i. Credit risk assessment
ii. Liquidity risk assessment
iii. Market risk assessment and
iv. Operational risk assessment

These risks are rated as very high, high, moderate, low and very low. Among factors considered in this assessment of risk are the inherent level of such risk in the specified risk, the trend of risk in that activity (e.g., increasing, decreasing, or stable), the adequacy of risk measurement and monitoring processes and tools, and the quality of risk management practices and controls in place to control such risks. The risk assessment is conducted by concerned risk work units. The assessment identifies the most significant, or key controls and includes an opinion about the effectiveness of the design of control in mitigating the related risk. As per the NBE risk management guideline, the Bank conducts the following under listed risk assessment in detail every quarter and briefly every month, submits, and reviews this assessment with the Board Risk Management Committee of the Bank. The results of the inherent risk assessment are also provided to other concerned organs.

4.2 Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, or counterparty to meet their financial obligations to the Bank. The Bank manages this risk by applying a strict set of criteria in credit granting. It ensures the lending activities are based on strong underwriting standard, KYC (know your customer) principles, confining its dealings to institutions and individuals of high creditworthiness and ensuring exposures to counterparties are appropriately secured. The Bank has high risk appetite for credit risk by taking into account expected returns, the external environment, and developments in the composition of the Bank's balance sheet.

The main credit risk identification methods used by the Bank are financial statements analysis, risk identification method, stress testing risk identification method and audit approach risk identification method. In rare cases, the Bank applies incident investigation risk identification method to identify credit risk.

Five levels of qualitative measurement of credit risk are applied by the Bank in order to measure credit risk impact. These measurement levels are scales that range from very low for risk that have insignificant consequences, low for risk that have minor consequences, medium for risk that have moderate consequences, high for risk that have major consequences and very high for risk that have extreme consequence. The level of the risk is measured taking into account the credit risk appetite of the Bank, NBE limits, internal credit risk limits and based on the Bank's risk management program.

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Notes to the financial statements (Continued)
4 Financial risk management (Continued)
4.2 Credit risk (Continued)

4.2.1 Credit quality analysis

The table below sets out information about the credit quality of financial assets and debt instruments measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

	Stage 1 ETB'000	Stage 2 ETB'000	Stage 3 ETB'000	2021 Total ETB'000	2020 Total ETB'000
Loans and advances to customers at amortised cost					
Stage 1 – Pass	58,147,588	-	-	58,147,588	38,651,044
Stage 2 – Special mention	-	2,209,355	-	2,209,355	2,799,882
Stage 3 - Non performing	-	-	1,635,346	1,635,346	709,949
Total gross exposure	**58,147,588**	**2,209,355**	**1,635,346**	**61,992,289**	**42,160,875**
Loss allowance	(89,379)	(12,021)	(240,736)	(342,136)	(93,338)
Net carrying amount	**58,058,209**	**2,197,334**	**1,394,610**	**61,650,153**	**42,067,537**

	Stage 1 ETB'000	Stage 2 ETB'000	Stage 3 ETB'000	2021 Total ETB'000	2020 Total ETB'000
IFB financing					
Stage 1 – Pass	2,243,958	-	-	2,243,958	542,341
Stage 2 – Special mention	-	11,689	-	11,689	-
Stage 3 - Non performing	-	-	410	410	-
Total gross exposure	**2,243,958**	**11,689**	**410**	**2,256,056**	**542,341**
Loss allowance	(2,892)	(35)	(20)	(2,948)	(179)
Net carrying amount	**2,241,066**	**11,653**	**389**	**2,253,108**	**542,162**

	2021 ETB'000		
Other financial assets (debt instruments)	**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash, bank balances and reserve with NBE	11,721,497	(359)	11,721,138
Investment securities (debt instruments)	12,073,292	(905)	12,072,387
Other receivables and financial assets	300,912	(8,246)	292,666
	24,095,701	**(9,510)**	**24,086,191**

	2020 ETB'000		
Other financial assets (debt instruments)	**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash, bank balances and reserve with NBE	8,741,421	(275)	8,741,146
Investment securities (debt instruments)	11,126,336	(616)	11,125,720
Other receivables and financial assets	251,991	(8,441)	243,550
	20,119,748	**(9,332)**	**20,110,416**

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.2 Credit quality analysis (Continued)

Credit quality analysis disclosures for off-balance sheet facilities are as follows:

Classification	12 months ECL ETB'000	Lifetime ECL credit not ETB'000	Lifetime ECL credit impaired ETB'000	2021 Total ETB'000
Pass	6,676,252	-	-	6,676,252
Special mention	-	-	-	-
Non-performing	-	-	-	-
Total exposure	6,676,252	-	-	6,676,252
Loss allowance	(284)	-	-	(284)
Carrying amount	**6,675,968**	-	-	**6,675,968**

Classification	12 months ECL ETB'000	Lifetime ECL credit not ETB'000	Lifetime ECL credit impaired ETB'000	2020 Total ETB'000
Pass	3,049,836	-	-	3,049,836
Special mention	-	-	-	-
Non-performing	-	-	-	-
Total exposure	3,049,836	-	-	3,049,836
Loss allowance	(70)	-	-	(70)
Carrying amount	**3,049,766**	-	-	**3,049,766**

4.2.2 Collateral held

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of financial asset	Note	2021 ETB'000	2020 ETB'000	Principal type of collateral held
Loans and advances to customers and IFB financing	15	164,709,182	120,384,870	Cash and cash substitutes, share certificates, bank guarantees, Buildings, vehicles and machineries, negotiable bills of payment and deposits.

I Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans and advances to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.2 Collateral held (Continued)

I Loans and advances to corporate customers (Continued)

At 30 June 2021, the gross carrying amount of credit-impaired loans and advances to corporate customers amounted to ETB 735 million (2020: ETB 369 million) and the value of identifiable collateral held against those loans and advances amounted to ETB 1,622 million (2020: ETB 841 million).

II Investment securities designated at FVTPL

At 30 June 2021, the Bank had no exposure to credit risk on the investment securities designated at FVTPL.

4.2.3 Amounts arising from ECL

I Significant increase in credit risk

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

The 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 Bank 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.

II Credit risk grades

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

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

a. Term loan exposures

- Information obtained during periodic reviews of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance
- Data from NBE, press articles
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities
- Affordability metrics

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

II Credit risk grades (Continued)

b. Overdraft exposures

- Payment record - this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

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 Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to analyse 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 Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

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

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

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

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

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

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

V Definition of default

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

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

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

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

To sum up, the definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

VI Incorporation of forward-looking information

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

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

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

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

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

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4 Financial risk management (Continued)
4.2 Credit risk (Continued)
4.2.3 Amounts arising from ECL (Continued)
VI Incorporation of forward-looking information (Continued)

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

Sector (Product)	Macro economic factors				
Agriculture, Personal loans and Staff loans	INFLATION: Consumer price index, 2010 = 100, average	EXCHANGE RATE: ETB/USD, average	GDP EXPENDITURE: Exports of goods and services, USD per capita	DEBT: Government domestic debt, ETB bn	STRATIFICATION: Household Spending, ETB bn
Domestic Trade and Services	GDP: GDP per capita, USD	GDP EXPENDITURE: Imports of goods and services, USD bn	GDP EXPENDITURE: Imports of goods and services, USD bn	EXCHANGE RATE: ETB/USD, average	FISCAL: Total revenue, USD bn
Building and Construction and Manufacturing and Production	GDP EXPENDITURE: Exports of goods and services, USD per capita	FISCAL: Current expenditure, USD bn	DEBT: Government domestic debt, ETB bn		
Export and Import	GDP EXPENDITURE: Exports of goods and services, ETB bn	GDP EXPENDITURE: Imports of goods and services, ETB bn	EXCHANGE RATE: Real effective exchange rate, index	GDP EXPENDITURE: Private final consumption, USD bn	DEBT: Total government debt, USD bn

The economic scenarios used as at 30 June 2021 include the following key indicators for Ethiopia for the years 2021 to 2023:

Macro-economic factor	2021	2022	2023
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
GDP: GDP per capita, USD	783	889	1004
GDP EXPENDITURE: Exports of goods and services, USD per capita	64.4	72.1	80.3
GDP EXPENDITURE: Exports of goods and services, ETB bn	246.7	291.7	342.9
EXCHANGE RATE: ETB/USD	33.31	34.31	35.34
GDP EXPENDITURE: Imports of goods and services, USD bn	25.4	31.4	35.9
FISCAL: Current expenditure, USD bn	8.1	9.6	10.9
GDP EXPENDITURE: Imports of goods and services, ETB bn	845.7	1077.9	1270.6
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
DEBT: Government domestic debt, ETB bn	752	872.3	1003.1
EXCHANGE RATE: Real effective exchange rate, index	126.32	124.12	122.16
GDP EXPENDITURE: Private final consumption, USD bn	68	81.9	95
STRATIFICATION: Household Spending, ETB bn	2095.7	2503.8	2991.5
FISCAL: Total revenue, USD bn	9.6	10.3	11.6
DEBT: Total government debt, USD bn	55.2	67.1	77

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4 Financial risk management (Continued)
4.2 Credit risk (Continued)
4.2.3 Amounts arising from ECL (Continued)

VI Incorporation of forward-looking information (Continued)

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

As at 30 June	2021		2020	
	Upside	Downside	Upside	Downside
Cluster 1	0%	50%	0%	50%
Cluster 2	0%	50%	0%	50%
Cluster 3	0%	50%	0%	50%
Cluster 4	0%	50%	0%	50%

VII Modified financial assets

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

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

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

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

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

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

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

VIII 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).

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4 Financial risk management (Continued)
4.2 Credit risk (Continued)
4.2.3 Amounts arising from ECL (Continued)
VIII Measurement of ECL (Continued)

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.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

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

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

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

However, for overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

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

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The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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4 Financial risk management (Continued)
4.2 Credit risk (Continued)
4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance

The tables below show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument:

Loans and advances to customers and IFB financing at amortised cost (on balance sheet exposures)	2021 ETB'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 July 2020	18,640	1,336	73,541	93,517
Transfer to stage 1 (12 months ECL)	1,356	(1,103)	(253)	-
Transfer to stage 2 (Lifetime ECL not credit	(4,860)	5,198	(338)	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(117,368)	(7,360)	124,728	-
Net re-measurement of loss allowance	145,828	8,944	20,686	175,458
New financial assets originated or purchased	59,083	5,429	56,891	121,403
Financial assets derecognised	(10,435)	(378)	(34,500)	(45,313)
Balance as at 30 June 2021	**92,244**	**12,066**	**240,755**	**345,065**
Loan and advances to customers				342,117
IFB financing				2,948
				345,065

Loans and advances to customers and IFB financing at amortised cost (on balance sheet exposures)	2020 ETB'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 July 2019	42,874	3,306	164,022	210,202
Transfer to stage 1 (12 months ECL)	8,930	(2,000)	(6,930)	-
Transfer to stage 2 (Lifetime ECL not credit	(2,611)	4,892	(2,281)	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(129)	(95)	224	-
Net re-measurement of loss allowance	(30,608)	(4,731)	(29,177)	(64,516)
New financial assets originated or purchased	10,914	306	49,991	61,211
Financial assets derecognised	(10,730)	(342)	(102,308)	(113,380)
Balance as at 30 June 2020	**18,640**	**1,336**	**73,541**	**93,517**
Loan and advances to customers				93,338
IFB financing				179
				93,517

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance (Continued)

2021
ETB'000

	Cash and bank balances	Investment securities (debt instruments)	Other receivables and financial assets	Total
Balance as at 1 July 2020	275	616	8,441	9,332
Net remeasurement of loss allowance	84	288	1,948	2,320
New financial assets originated or purchased	-	-	-	-
Financial assets derecognised	-	-	(2,144)	(2,144)
Balance as at 30 June 2021	**359**	**904**	**8,245**	**9,508**

2020
ETB'000

	Cash and bank balances	Investment securities (debt instruments)	Other receivables and financial assets	Total
Balance as at 1 July 2019	192	615	4,717	5,524
Net remeasurement of loss allowance	83	1	6,871	6,955
New financial assets originated or purchased	-	-	-	-
Financial assets derecognised	-	-	(3,147)	(3,147)
Balance as at 30 June 2020	**275**	**616**	**8,441**	**9,332**

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4 Financial risk management (Continued)
4.2 Credit risk (Continued)
4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance (Continued)

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

	2021 ETB'000			
	Loans and advances to customers and IFB financing	**Investment securities (debt instruments)**	**Other financial assets & off balance sheet exposures**	**Total charge/ (credit)**
Net remeasurement of loss allowance	175,458	288	109	175,855
New financial assets originated or purchased	121,403	-	-	121,403
Financial assets derecognised	(45,313)	-	-	(45,313)
Amounts directly written off during the year	-	-	2,144	2,144
	251,548	**288**	**2,253**	**254,089**

	2020 ETB'000			
	Loans and advances to customers at amortised cost	**Investment securities (debt instruments)**	**Other financial assets**	**Total charge/ (credit)**
Net remeasurement of loss allowance	(64,515)	(2,662)	3,082	(64,095)
New financial assets originated or purchased	61,210	1,029	7,076	69,315
Financial assets derecognised	(84,563)	1,634	-	(82,929)
Amounts directly written off during the year	17,892	-	(3,147)	14,745
	(69,976)	**1**	**7,011**	**(62,964)**

4.2.4 Concentrations of credit risk

Gross loans and advances to customers and IFB financing per sector are analysed as follows:

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4 Financial risk management (Continued)
4.2 Credit risk (Continued)
4.2.4 Concentrations of credit risk (Continued)

a) Loans and advances

	2021 ETB'000	2020 ETB'000
Domestic trade and services	17,945,763	11,002,479
Manufacturing	14,452,596	9,927,601
Export	8,355,219	5,083,395
Real estate	6,253,045	4,908,346
Transport	1,518,366	1,939,012
Construction, machinery and working capital	2,113,372	2,173,629
Import	2,404,352	2,045,968
Personal	4,186,537	2,102,484
Staff housing loans	2,463,767	1,793,186
Loans and advances under litigation	399,519	320,617
Agriculture	381,071	392,388
Emergency staff loan	397,050	349,175
Advances on letters of credit	269,976	122,595
Mining	276	-
Special financing scheme - Hotel and Tourism	415,388	-
Mastercard Foundation loan facility	384,558	-
DBE SME finance project	51,434	-
	61,992,289	42,160,875

b) IFB financing

	2021 ETB'000	2020 ETB'000
Domestic trade and services	913,842	113,003
Manufacturing	404,546	91,531
Real estate	519,074	292,424
Transport	66,176	11,853
Construction, machinery and working capital	4,012	1,898
Import	279,820	24,353
Export	6,300	-
Personal	46,539	-
Emergency staff loan	5,788	-
Agriculture	9,959	7,279
	2,256,056	542,341

4.2.5 Collateral held and its financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. Staff loans other than staff housing loans are secured to the extent of the employees' continued employment in the Bank.

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees, cash, residential, commercial and industrial property, such as vehicles, plant and machinery. The Bank does not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

The fair value of the collateral is based on the last revaluations carried out by the Bank's in-house engineers. The valuation technique adopted for properties is in line with the Bank's valuation manual and the revalued amount is similar to fair values of properties with similar size and location.

The fair value of collateral other than as share certificates, cash, NBE bills, etc. as disclosed at the carrying amount as management is of the opinion that the cost of the process of establishing the fair value of the collateral exceeds benefits accruable from the exercise.

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.6 Credit related commitments risks

The Bank makes available to its customers guarantees which may require the Bank to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

4.2.7 Statement of prudential adjustments

During the year ended 30 June 2021, the Bank transferred an amount of ETB 152 million (2020 ETB 278 million) to the credit risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IFRS 9 as at year end.

The Bank compared the total provision based on the NBE Directive No. SBB/69/2018 with the impairment under IFRSs for the comparative period and a transfer was made from retained earnings to regulatory credit risk reserve account as the impairment balance under IFRSs was lower for the year.

	2021 ETB'000	2020 ETB'000
Suspended interest	329,640	123,815
Total impairment based on IFRSs	(353,311)	(101,958)
Total impairment based on NBE Directives	918,904	721,410
	895,233	**743,267**

4.2.8 Nature of security in respect of loans and receivables

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees, cash, residential, commercial and industrial property; vehicles, plant and machinery.

4.3 Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk management in the Bank is solely determined by the Asset Liability Management Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that maturing obligations are met.

Cash flow forecasting is performed in order to monitor liquidity status. The Treasury Management Department monitors rolling forecasts of liquidity requirements to ensure that it has sufficient cash to meet operational needs. Maturity mismatch techniques are used for the Bank's financial liabilities analysis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

Cash flow forecasting is performed by the Finance Department. The Finance Department monitors rolling forecasts of liquidity requirements to ensure that it has sufficient cash to meet operational needs.

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

The Bank has incurred indebtedness in the form of borrowings. The Bank evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Bank devises strategies to manage its liquidity risk.

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4 Financial risk management (Continued)

4.3 Liquidity risk (Continued)

4.3.1 Maturity analysis of financial liabilities

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

	Days				
2021	**0 - 30 ETB'000**	**31 - 90 ETB'000**	**91 - 180 ETB'000**	**181 - 365 ETB'000**	**Over 1 year ETB'000**
Deposits from customers	591,711	1,582,827	1,392,762	1,531,268	69,454,938
Other financial liabilities	3,731,798	2,302,599	447,284	1,257,131	445,802
	4,829,408	**3,885,426**	**1,840,046**	**2,788,399**	**67,430,652**
2020	**0 - 30 ETB'000**	**31 - 90 ETB'000**	**91 - 180 ETB'000**	**181 - 365 ETB'000**	**Over 1 year ETB'000**
Deposits from customers	1,055,000	773,000	1,729,000	1,438,611	48,498,244
Other liabilities	1,238,345	2,259,453	521,466	904,822	454,846
	2,293,345	**3,032,453**	**2,250,466**	**2,343,433**	**48,953,090**

4.3.2 Financial assets pledged as collateral

Financial assets are pledged as collateral as part of securities for borrowings under terms that are usual and customary for such activities.

The total financial assets recognised in the statement of financial position that have been pledged as collateral for liabilities at 30 June 2021 are disclosed in the table below.

	Pledged as collateral ETB'000
Cash and balances with banks	18,763
Investment securities	6,364,375
	6,383,138

Assets pledged as collateral are not available for the Bank's operation.

4.4 Market risk

Market risk is defined as the risk of loss that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institution. The Bank does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

4.4.1 Objective of market risk management

The main objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is monitored by the Enterprise Risk and Compliance Management Department regularly to identify any adverse movement in the underlying variables.

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4 Financial risk management (Continued)

4.4 Market risk (Continued)

4.4.2 Management of market risk

Market risk is monitored by the Risk Management and Compliance Department regularly, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk.

The Bank is also exposed to fixed rate financial assets and financial liabilities. The Bank's investment portfolio is comprised of treasury bills, Ethiopian government bonds and cash deposits.

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

30-Jun-21	Interest Bearing ETB'000	Non-interest bearing ETB'000	Total ETB'000
Assets			
Cash and balances with banks	5,094,154	2,897,343	7,991,497
Reserve with National Bank of Ethiopia	-	3,730,000	3,730,000
Loans and advances to customers	61,650,172	-	61,650,172
IFB financing	-	2,253,108	2,253,108
Debt securities at amortised cost	12,072,387	-	12,072,387
	78,816,713	**8,880,451**	**87,697,164**
Liabilities			
Deposits from customers	69,756,494	4,797,012	74,553,506
Other liabilities	486,718	7,697,896	8,184,614
	70,243,212	**12,494,908**	**82,738,120**

30-Jun-20	Interest Bearing ETB'000	Non-interest bearing ETB'000	Total ETB'000
Assets			
Cash and balances with banks	1,429,063	4,632,083	6,061,146
Reserve with National Bank of Ethiopia	-	2,680,000	2,680,000
Loans and advances to customers	42,067,537	-	42,067,537
IFB financing	-	542,162	542,162
Debt securities at amortised cost	11,125,720	-	11,125,720
	54,622,320	**7,854,245**	**62,476,565**
Liabilities			
Deposits from customers	51,127,823	2,366,032	53,493,855
Other liabilities	-	5,378,932	5,378,932
	51,127,823	**7,744,964**	**58,872,787**

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

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4 Financial risk management (Continued)
4.4 Market risk (continued)
4.4.2 Management of market risk (continued)
(ii) Foreign exchange risk

Foreign currency denominated balances	2021 ETB'000	2020 ETB'000
Cash and balances with banks	1,708,059	268,950
Liability	(8,629,653)	(3,944,854)
	(6,921,594)	**(3,675,904)**

Sensitivity analysis for foreign exchange risk

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

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

	2021 in '000 ETB		
Assets	Currency Carrying Amount	10 % Depreciation of ETB against FCY	10 % Appreciation of ETB against FCY
USD	1,599,484	159,948	(159,948)
GBP	3,264	326	(326)
Euro	69,005	6,900	(6,900)
Others	36,306	3,630	(3,630)
	1,708,059	170,804	(170,804)
Liabilities			
USD	8,106,210	(810,621)	810,621
GBP	19,160	(1,916)	1,916
Euro	480,073	(48,007)	48,007
Others	24,210	(2,421)	2,421
	8,629,653	(862,965)	862,965
Total increase/(decrease)		(692,161)	692,161
Tax charge at 30%		207,648	(207,648)
Effect on net profit		**(484,513)**	**484,513**

	2020 in '000 ETB		
Assets	Currency Carrying Amount	10 % Depreciation of ETB against FCY	10 % Appreciation of ETB against FCY
USD	171,692	17,169	(17,169)
GBP	6,334	633	(633)
Euro	55,855	5,585	(5,585)
Others	35,069	3,506	(3,506)
	268,950	26,893	(26,893)
Liabilities			
USD	3,599,598	(359,959)	359,959
GBP	11,893	(1,189)	1,189
Euro	256,896	(25,689)	25,689
Others	76,467	(7,646)	7,646
	3,944,854	(394,483)	394,483
Total increase/(decrease)		(367,590)	367,590
Tax charge at 30%		110,277	(110,277)
Effect on net profit		**(257,313)**	**257,313**

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.5 Capital management

The Bank's objectives when managing capital are to comply with the capital requirements set by the NBE, safeguard its ability to continue as a going concern, and to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

4.5.1 Capital adequacy ratio

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

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

Capital includes paid-up capital, retained earnings, legal reserve and other reserves approved by the NBE.

	2021 ETB'000	2020 ETB'000
Capital		
Paid-up capital	4,387,996	3,479,224
Retained earnings	1,161,185	796,315
Reserve for IFRSs	922,013	951,405
Legal reserve	2,800,992	2,369,430
Special reserve	100	100
Regulatory Risk Reserve	895,233	743,267
Other reserves	(42,430)	(25,169)
	10,125,089	8,314,572
Risk weighted assets		
Risk weighted balance for on-balance sheet items	66,626,690	38,095,020
Credit equivalents for off-balance sheet items	25,299,568	12,794,750
Total risk weighted assets	91,926,258	50,889,770
Risk-weighted Capital Adequacy Ratio with primary capital	8%	11%
Risk-weighted Capital Adequacy Ratio with total capital	10%	15%
Minimum required capital	8%	8%

4.6 Fair value of financial assets and liabilities

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

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

4.6.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

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

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4 Financial risk management (Continued)

4.6 Fair value of financial assets and liabilities (Continued)

4.6.1 Valuation models (Continued)

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilitie
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data.

  In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all assets and liabilities for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset or liability's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.6.2 Financial instruments measured at fair value - Fair value hierarchy

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

30-Jun-21	Carrying amount ETB'000	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Financial assets					
Cash and balances with banks	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Financial assets at fair value through OCI	112,138	-	112,138	-	112,138
Financial assets at amortised cost	-	-	-	-	-
Total	**112,138**	**-**	**112,138**	**-**	**112,138**

Financial liabilities	Carrying amount ETB'000	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Deposits from customers	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total	-	-	-	-	-

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4 Financial risk management (Continued)

4.6 Fair value of financial assets and liabilities (Continued)

4.6.2 Financial instruments measured at fair value - Fair value hierarchy (Continued)

30-Jun-20	Carrying amount ETB'000	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Financial assets					
Cash and balances with banks	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Financial assets at fair value through OCI	95,778		95,778		95,778
Financial assets at amortised cost	-	-	-	-	-
Total	**95,778**	**-**	**95,778**	**-**	**95,778**
Financial liabilities					
Deposits from customers	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total	-	-	-	-	-

4.6.3 Valuation technique using significant unobservable inputs – Level 3

The Bank has no financial asset measured using significant unobservable inputs.

4.6.4 Transfers between the fair value hierarchy categories

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

4.7 Offsetting financial assets and financial liabilities

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

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		2021 ETB'000	2020 ETB'000
5	**Interest income**		
	Interest on loans and advances	7,214,978	5,363,431
	Interest income from NBE bills and government bonds	654,018	457,390
	Interest income from foreign deposits	21	1,318
	Interest income from local deposits	95,233	1,861
		7,964,250	5,824,000

Included within various line items under interest income for the year ended 30 June 2021 is a total of ETB 204 million (30 June 2020: ETB 49.9 million) relating to impaired financial assets.

		2021 ETB'000	2020 ETB'000
6	**Interest expense**		
	Interest on savings deposits	2,352,398	1,880,704
	Interest on demand deposits	-	59
	Interest on time deposits	571,955	491,282
	Finance charge on lease liability	20,541	23,481
	Interest on borrowings	15,182	63,338
		2,960,076	2,458,864
7	**Net fees and commission income**		
	Fees and commission income		
	Service charges	593,345	427,495
	Commission on CPOs and FTs	666,198	648,795
	Commission on letters of credit	458,071	284,434
	Transaction fees	75,603	53,565
	Commission on guarantees issued	221,369	98,116
	Credit related commissions	532	507
		2,015,118	1,512,912
	Fees and commission expense	(95,587)	(80,609)
	Net fees and commission income	1,919,531	1,432,303
8	**Other operating income**		
	Sundry income	97,243	129,344
	Rental income	84,470	70,747
	Investment income	7,692	9,827
	Income from IFB financing	90,641	11,292
		280,046	221,210
9	**Loan & IFB financing impairment charge**		
	Loans impairment (charge)/ reversal of provision (note 17c)	(248,779)	69,976
	IFB financing impairment (charge) of provision (note 17c)	(2,769)	(179)
		(251,548)	69,797

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		2021 ETB'000	2020 ETB'000
10	**Impairment losses on other financial assets**		
	Receivables - charge for the year (note 17c)	(1,948)	(6,871)
	Cash and bank balances - charge for the year (note 17c)	(84)	(83)
	Investment securities (debt instruments) - charge for the year (note 17c)	(289)	(1)
	LCs and financial guarantee contracts - charge for the year (note 17c)	(220)	(57)
		(2,541)	(7,012)
11	**Employee benefits expenses**		
	Salaries and wages	1,376,595	1,144,352
	Staff allowances	250,098	224,652
	Other staff expenses	282,857	155,532
	Pension costs – Defined contribution plan	177,224	164,236
	Retirement benefits expense - defined benefit plan	46,260	33,748
	Life and GPA insurance	11,996	11,788
		2,145,030	1,734,308
12	**Other operating expenses**		
	Rental expense	10,644	3,996
	Depreciation	230,425	204,197
	Advertisement and promotions	73,623	75,744
	Donations and contributions	48,306	40,927
	Repairs and maintenance	38,612	38,644
	Communications expense	15,183	14,309
	Printing and stationery	25,333	31,779
	Amortisation of intangible assets	79,455	29,381
	Sundry expenses	48,836	80,264
	Depreciation of investment property	16,874	16,370
	Representation allowances	30,539	25,187
	Transportation	14,007	9,226
	Utilities	18,126	16,093
	Insurance	12,851	13,315
	Per diems	7,559	7,203
	Entertainment	13,281	8,002
	Office expenses	5,271	6,256
	Outsourced service fee	170,347	152,029
	Hardware and software service fees	161,344	152,953
	Directors' related expenses	2,592	1,935
	Audit fees	1,738	1,655
	License and registration fees	574	359
	Legal and professional fees	8,292	16,702
	Postage and stamps	8	18
	Loss on disposal of fixed assets	151	-
	Penalty charges	12	85
	Gift	1,790	-
	Depreciation of right-of-use-asset	294,286	268,656
	Impairment loss on non financial assets	4,700	-
		1,334,759	1,215,285

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		2021 ETB'000	2020 ETB'000
13	**Company income and deferred tax**		
13(a)	**Current income tax**		
	Current income tax (note 13b)	680,618	381,974
	Deferred income tax - profit or loss	19,939	(128,977)
	Total charge to profit or loss	700,557	252,997
	Deferred income tax - OCI	(7,397)	(4,139)
	Total tax in statement of comprehensive income	693,160	248,858

13(b) Taxation charge

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

	2021 ETB'000	2020 ETB'000
Profit before tax	2,426,804	1,789,930
Non-deductible expenses		
Depreciation and amortisation per IFRS	326,754	249,948
Impairment loss /(reversal) as per IFRS	248,779	(69,976)
Impairment of IFB financing	2,769	179
Impairment charge on receivables and other exposures	2,541	7,012
Impairment of non-financial assets	4,700	-
Severance expense	46,103	33,460
Entertainment	13,281	8,002
Family medical expense	6,306	
Legal provision reversal	(3,008)	2,658
Penalty and gift	1,802	85
Donations	-	20,927
Unrealised foreign exchange loss	83,245	148,230
Provision for accrued leave expense	23,487	41,148
Amortisation of prepaid staff benefits expense net of additional interest income recognised on discounted staff loans	34,066	39,344
Interest charge on lease liability	20,541	23,481
Depreciation expense of right-of-use-asset	294,286	268,656
Less:		
Interest income on NBE bills - tax exempt income	(654,018)	(457,390)
Depreciation as per tax law	(391,377)	(241,398)
Provision for loss on loans and advances, IFB financing and receivables as per tax law	(159,710)	(171,128)
Rent expense and land operating lease amortisation expense	(316,627)	(276,253)
Dividend income taxed at source	(7,692)	(9,827)
Interest income on local deposits (taxed at source)	(95,233)	(1,861)
Severance and farewell benefits paid	(7,979)	(7,212)
Interest on foreign deposits (taxed at 10%)	(21)	(1,318)
Leave payments made during the year	(20,554)	(12,988)
Gain on disposal of assets	(5,664)	(5,753)
Prior period adjustment	-	(105,151)
Taxable income	1,873,581	1,272,805
Current tax expense (30%)	562,074	381,842
Current tax expense - income on foreign deposits (10%)	2	132
Tax payment made upon tax audit	118,542	-
Total current tax expense	680,618	381,974

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13 Company income and deferred tax (Continued)

13(c) Reconciliation of effective tax to statutory tax

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

	2021 ETB'000	2020 ETB'000
Profit before tax	2,426,804	1,789,930
Profit tax at the applicable rate of 30%	728,041	536,979
Tax effect of income taxed at source	(227,083)	(140,723)
Tax effect of disallowed expenses	179,658	(14,414)
Tax effect of income on foreign deposits (10%)	2	132
Tax expense	680,618	381,974

13(d) Current income tax liability

	2021	2020
Balance at the beginning of the year	380,839	240,950
Charge for the year (note 13b)	680,618	381,974
Withholding tax paid	(1,409)	(1,135)
Payment during the year	(499,381)	(240,950)
Balance at the end of the year	560,667	380,839

13(e) Deferred tax assets

The analysis of deferred tax assets is as follows:

	2021	2020
To be recovered after more than 12 months	115,621	128,163
To be recovered within 12 months	-	-
	115,621	128,163

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

Deferred income tax assets/(liabilities):	At 1 July 2020 ETB'000	Reclassification ETB'000	Credit/ (charge) to P/L ETB'000	Credit/ (charge) to equity or ETB'000	At 30 June 2021 ETB'000
Property and equipment	(8,779)	-	(43,439)	-	(52,218)
Post employment benefits obligation	42,546	-	11,437	-	53,983
Unrealised fair value (gain) / loss on equity instruments	(8,427)	-	-	6,667	(1,760)
Actuarial loss	19,214	-	-	730	19,944
Unrealised foreign exchange loss	44,469	-	(19,496)	-	24,973
Right-of-use-asset and lease liability	30,692	-	2,551	-	33,243
Provision for accrued leave	8,448	-	29,008	-	37,456
Total deferred tax assets/(liabilities)	128,163	-	(19,939)	7,397	115,621

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13 Company income and deferred tax (Continued)

13(e) Deferred tax assets / (liabilities) (Continued)

Deferred income tax assets/(liabilities):	At 1 July 2019 ETB'000	Reclassification ETB'000	Credit/ (charge) to P/L ETB'000	Credit/ (charge) to equity or ETB'000	At 30 June 2020 ETB'000
Property and equipment	(46,272)	-	37,493	-	(8,779)
Post employment benefits obligation	34,671	-	7,875	-	42,546
Adjustment on initial application of	(5,009)	5,009	-	-	-
Unrealised fair value (gain) / loss on equity instruments	(4,052)	(5,009)	-	634	(8,427)
Actuarial loss	15,709	-		3,505	19,214
Unrealised foreign exchange loss	-	-	44,469	-	44,469
Right-of-use-asset and lease liability	-	-	30,692	-	30,692
Provision for accrued leave	-	-	8,448	-	8,448
Total deferred tax assets/(liabilities)	(4,953)	-	128,977	4,139	128,163

14 Cash, balances with banks and reserve with National Bank of Ethiopia

14(a) Cash and balances with banks

	2021 ETB'000	2020 ETB'000
Cash in hand	2,082,893	2,043,856
Balance held with National Bank of Ethiopia	814,450	2,588,431
Deposits with local banks maturing in three months	605,491	101,911
Deposits with foreign banks	1,576,253	136,086
Treasury Bills maturing in three months	2,912,410	1,191,137
	7,991,497	6,061,421
Impairment allowance-bank balances	(172)	(141)
	7,991,325	6,061,280

The cash in hand balance includes ETB 151 million at the Bank's branches in the Tigray Region, the existence of which could not be confirmed due to the Region's current conflict.

14(b) Reserve with National Bank of Ethiopia

	2021 ETB'000	2020 ETB'000
Reserve with National Bank of Ethiopia	3,730,000	2,680,000
Impairment allowance - reserve with National Bank of Ethiopia	(187)	(134)
	3,729,813	2,679,866

The reserve account balance maintained with the National Bank of Ethiopia is restricted for current use.

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		2021 ETB'000	2020 ETB'000
15	**Loans and advances and IFB financing**		
15(a)	**Loans and advances to customers**		
	Domestic trade and services	17,945,763	11,002,479
	Manufacturing	14,452,596	9,927,601
	Export	8,355,219	5,083,395
	Real estate	6,253,045	4,908,346
	Transport	1,518,366	1,939,012
	Construction, machinery and working capital	2,113,372	2,173,629
	Import	2,404,352	2,045,968
	Personal	4,186,537	2,102,484
	Staff housing loans	2,463,767	1,793,186
	Loans and advances under litigation	399,519	320,617
	Agriculture	381,071	392,388
	Emergency staff loans	397,050	349,175
	Advances on letters of credit	269,976	122,595
	Mining	276	-
	Special financing scheme-hotel and tourism	415,388	-
	Mastercard foundation loan facility	384,558	-
	DBE SME Finance project	51,434	-
	Gross amount	61,992,289	42,160,875
	Less:		
	Impairment loss allowance (note 4.2.3)	(342,117)	(93,338)
		61,650,172	42,067,537
	Maturity analysis		
	Current	14,823,259	9,946,838
	Non-current	46,826,913	32,120,699
		61,650,172	42,067,537
15(b)	**IFB financing**		
	Domestic trade and services	913,842	113,003
	Manufacturing	404,546	91,531
	Real estate	519,074	292,424
	Transport	66,176	11,853
	Construction, machinery and working capital	4,012	1,898
	Import	279,820	24,353
	Export	6,300	-
	Personal	46,539	-
	Emergency staff loan	5,788	-
	Agriculture	9,959	7,279
	Gross amount	2,256,056	542,341
	Less:		
	Impairment loss allowance (note 4.2.3)	(2,948)	(179)
		2,253,108	542,162
	Maturity analysis		
	Current	405,959	271,081
	Non-current	1,847,149	271,081
		2,253,108	542,162

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15 Loans and advances and IFB financing (Continued)

The total loans and advances and IFB financing balance of ETB 1.7 billion and the related collateral at the Bank's Tigray Region branches are treated in the same manner as the other loans and advances and IFB financing balances although the status of those balances could not be determined due to the Region's current conflict.

16 Investment security

		2021	2020
16(a)	**Financial assets at fair value through OCI**	ETB'000	ETB'000
	Balance at the beginning of the year	95,778	89,897
	Changes in the fair value of financial assets at FVTOCI	(22,224)	(2,114)
	Additional investments made during the year	38,584	7,995
	Balance at the end of the year	112,138	95,778

16(b) The Bank holds equity investments in Ethswitch S.C of 5% (2020: 5%), Nyala Insurance S.C of 5% (2020: 5%), Ethiopian Reinsurance S.C of 2.27% (2020: 2.27%) and Society of Worldwide Interbank Financial Telecommunication (SWIFT) S.C of 0.005% (2020: 0.005%) and Addis Africa International Conventional Center of 1.29% (2020: 1.56%). These investments are unquoted equity securities measured at cost except for SWIFT, which has been measured at fair value.

		2021	2020
16(c)	**Debt Securities at amortised cost**	ETB'000	ETB'000
	NBE Bills	10,927,456	10,928,248
	Deposits with local banks	471,832	-
	Treasury Bills	667,900	191,849
	Ethiopian Government bonds	6,104	6,239
	Gross amount	12,073,292	11,126,336
	Less:		
	Impairment allowance-Bills & Bonds	(905)	(616)
		12,072,387	11,125,720
	Maturity analysis		
	Current	3,339,589	424,694
	Non-current	8,732,798	10,701,026
		12,072,387	11,125,720

17 Other assets

17(a)	**Financial assets at amortised cost**		
	Clearing account balances	168,008	128,608
	Sundry receivables	132,904	123,383
		300,912	251,991
	Impairment allowance for receivables	(8,246)	(8,441)
		292,666	243,550
	Non-financial assets		
	Staff advances	3,398	5,014
	Prepayments	426,331	257,247
	Prepaid operating lease rentals	103	21
	Prepaid staff benefits	753,514	184,357
	Acquired properties	60,169	37,536
	Inventory	88,943	78,823
		1,332,458	562,998
	Gross amount	1,625,124	806,548

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17 Other assets (Continued)

17(a) Financial assets at amortised cost (Continued)

	2021 ETB'000	2020 ETB'000
Maturity analysis		
Current	722,395	165,972
Non-current	902,729	640,576
	1,625,124	806,548

17(b) Impairment allowance for receivables

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

	2021	2020
Balance at the beginning of the year	(8,441)	(4,717)
Written off	2,144	3,147
Charge for the year (note 4.2.3)	(1,948)	(6,871)
Balance at the end of the year	(8,245)	(8,441)

17(c) Movement of impairment loss allowance

	As at 30 June 2020 ETB'000	Write off ETB'000	Charge / (reversal) for year ETB'000	As at 30 June 2021 ETB'000
Loans and advances	93,338	-	248,779	342,117
IFB financing	179	-	2,769	2,948
LC and guarantees	70	-	220	290
Debt securities at amortised cost	616	-	289	905
Receivables	8,441	(2,144)	1,948	8,245
Bank balances	275	-	84	359
Total	102,919	(2,144)	254,089	354,864

18 Joint operations

The Bank has a 40% interest in a joint arrangement in the Tana Department Store Building in Addis Ababa which was set up as a partnership together with MIDROC Ethiopia PLC to earn rental income. Dashen Bank manages and administers the affairs of the building.

The joint venture agreements in relation to the Tana Building partnership require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is, therefore, classified as a joint operation and the group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 2.20.

Name of operation	% of ownership interest		2021 ETB'000	2020 ETB'000
Tana Building Administration	40%			
		Total assets	183,903	183,268
		Total liabilities	3,399	3,186
		Total income	16,166	14,466
		Total expenses	3,036	3,775

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19 Investment properties

	2021 ETB'000	2020 ETB'000
Cost:		
At the beginning of the year	848,416	848,416
Acquisitions	-	-
At the end of the year	848,416	848,416
Accumulated depreciation:		
At the beginning of the year	67,420	51,050
Charge for the year	16,874	16,370
At the end of the year	84,294	67,420
Net book values	764,122	780,996

19(a) Amounts recognised in profit or loss for investment properties

	2021 ETB'000	2020 ETB'000
Rental income	84,470	70,747
Depreciation of investment properties	16,874	16,370

19(b) Fair value measurement of the Bank's Investment properties

Investment properties include those held for rental purposes and those in which the Bank occupies an insignificant portion. These properties are held to earn rentals and for capital appreciation. There are currently no restrictions on the realisability of these properties.

Investment properties are initially measured at fair value as deemed cost and subsequently measured at depreciated cost (less any accumulated impairment losses). Depreciation is calculated using the straight-line method to allocate costs less residual values over the estimated useful lives of 50 years. The fair value of investment properties has been disclosed as required.

The fair value of the Bank's investment property as at 30 June 2021 is ETB 1.45 billion (2020: ETB 1.63 billion). The fair value of the Bank's Investment property has been arrived at by in-house engineers qualified estate surveyors and valuers. These valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the replacement cost concept which approximates the estimated amount for which a property should exchange on the date of valuation between knowledgeable willing parties in an arm's length transaction after proper marketing, prudently and without compulsion. This implies a market comparable approach that reflects the recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

19(c) Fair value hierarchy

Details of the Bank's Investment properties and information about the fair value hierarchy at 30 June 2021 and 30 June 2020 are as follows:

	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000
2021			
Investment properties	-	-	1,446,953
2020			
Investment properties	-	-	1,631,302

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19(d) Investment properties include ETB 27m freehold land with indefinite economic life that is not depreciated.

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20 Intangible Assets

	License	Software	Total
	ETB'000	ETB'000	ETB'000
Cost:			
As at 1 July 2019	44,653	180,001	224,654
Acquisitions	-	11,602	11,602
As at 30 June 2020	44,653	191,603	236,256
As at 1 July 2020	44,653	191,603	236,256
Additions	-	199,291	199,291
As at 30 June 2021	44,653	390,894	435,547
Accumulated amortisation and impairment losses			
As at 1 July 2019	(31,904)	(83,353)	(115,257)
Amortisation for the year	(6,381)	(23,000)	(29,381)
As at 30 June 2020	(38,285)	(106,353)	(144,638)
As at 1 July 2020	(38,285)	(106,353)	(144,638)
Amortisation for the year	(6,368)	(73,087)	(79,455)
As at 30 June 2021	(44,653)	(179,440)	(224,093)
Net book values			
As at 30 June 2020	**6,368**	**85,250**	**91,618**
As at 30 June 2021	-	**211,454**	**211,454**

21 Property and equipment

	2021	2020
	ETB'000	ETB'000
Property and equipment (21a)	3,120,473	3,140,885
Right-of-use-assets (21b)	1,051,223	740,757
	4,171,696	**3,881,642**

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21 Property and equipment (continued)

21(a) Property and equipment

	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer equipment	Construction in progress	Total
	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000
Cost:							
As at 1 July 2019	1,930,438	280,621	278,907	238,702	621,568	359,457	3,709,693
Additions	-	81,999	38,602	27,752	185,799	1,151.00	335,303
Reclassifications	337,980	-	3,957	-	-	(342,517)	(580)
Disposals	-	(5,755)	(14,149)	(970)	(27,194)	-	(48,068)
As at 30 June 2020	2,268,418	356,865	307,317	265,484	780,173	18,091	3,996,348
As at 1 July 2020	2,268,418	356,865	307,317	265,484	780,173	18,091	3,996,348
Additions	856	52,009	25,353	44,162	74,616	13,478	210,474
Disposals	-	(3,514)	(103)	(48)	(204)	-	(3,869)
As at 30 June 2021	2,269,274	405,360	332,567	309,598	854,585	31,569	4,202,953
Accumulated depreciation:							-
As at 1 July 2019	(44,587)	(109,001)	(134,914)	(86,311)	(314,196)	-	(689,009)
Prior years adjustment	(8,529)	-	-	-	-	-	(8,529)
Charge for the year	(46,621)	(29,895)	(31,968)	(20,492)	(75,265)	-	(204,241)
Disposals	-	5,424	13,734	612	26,546	-	46,316
As at 30 June 2020	(99,737)	(133,472)	(153,148)	(106,191)	(362,915)	-	(855,463)
							-
As at 1 July 2020	(99,737)	(133,472)	(153,148)	(106,191)	(362,915)	-	(855,463)
Charge for the year	(44,750)	(34,319)	(35,696)	(23,518)	(92,142)	-	(230,425)
Disposals	-	3,223	70	16	99	-	3,408
As at 30 June 2021	(144,487)	(164,568)	(188,774)	(129,693)	(454,958)	-	(1,082,480)
Net book values							
As at 30 June 2020	**2,168,681**	**223,393**	**154,169**	**159,293**	**417,258**	**18,091**	**3,140,885**
As at 30 June 2021	**2,124,787**	**240,792**	**143,793**	**179,905**	**399,627**	**31,569**	**3,120,473**

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21 Property and equipment (continued)

21(a) Property and equipment

21.1 Construction in progress represents directly attributable costs related to construction of buildings at Ras Mekonnen, Shewaber, Adama, Jimma, Lideta and Dessie.

21.2 Upon impairment review, the net book values of property and equipment does not exceed its recoverable amounts as at the end of the reporting period. Thus, the management is of the opinion that allowance for impairment is not required.

21.3 Property and equipment include ETB 33m freehold land with indefinite economic life that is not depreciated.

21(b) Right of use assets

	Office rent ETB'000	Rent for ATM spaces ETB'000	Leasehold land ETB'000	Total ETB'000
Balance at 1 July 2019	**876,766**	**8,724**	**51,020**	**936,510**
Additions	71,604	1,299	-	72,903
Depreciation(charge for the year)	(264,262)	(3,222)	(1,172)	(268,656)
Balance at 30 June 2020	**684,108**	**6,801**	**49,848**	**740,757**
Balance at 1 July 2020	684,108	6,801	49,848	740,757
Additions	310,239	2,080	-	312,319
Adjustments	289,336	3,097	-	292,433
Depreciation(charge for the year)	(289,694)	(3,420)	(1,172)	(294,286)
Balance at 30 June 2021	**993,989**	**8,558**	**48,676**	**1,051,223**

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22 Deposits from customers

	2021 ETB'000	2020 ETB'000
22(a) Deposits from Conventional customers		
Demand deposits	19,731,574	12,135,649
Savings deposits	44,943,533	33,898,887
Time deposits	5,081,387	5,093,287
	69,756,494	51,127,823
22(b) Deposits from Interest free banking Customers		
Qard deposits	1,204,644	404,447
Wadia savings deposits	3,592,368	1,961,585
	4,797,012	2,366,032
Total Deposits	74,553,506	53,493,855
Maturity analysis		
Current	5,664,023	4,995,611
Non-current	68,889,483	48,498,244
	74,553,506	53,493,855

22(c) The Bank has changed its measurement of foreign currency denominated customer deposit balances from mid-rate to buying rate in the current accounting year. Had the buying rate been applied to the comparative year, the customer deposit balance would have been less by ETB 28.6 million.

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23 Other liabilities	2021 ETB'000	2020 ETB'000
Financial liabilities		
Accruals	82,762	80,936
Borrowing-local	486,718	
Banking instruments payables	2,871,997	387,742
Customers payables	1,389,166	1,701,267
Equity and other blocked accounts	16,912	15,460
Margins held on letters of credit	2,766,178	2,857,838
Hamish Jidia held accounts	31,315	-
Staff payables	214,853	105,008
Impairment allowance for LCs & guarantees	290	70
Lease liabilities	324,423	230,611
	8,184,614	5,378,932
Non-financial liabilities		
Deferred income	153,461	57,342
Defined contribution liabilities	8,683	4,425
Sundry payables	797,999	374,017
Stamp duty payable	9,388	10,952
Withholding tax and value added tax payables	17,141	9,153
Other tax payable	39,988	28,349
Provision	-	3,008
	1,026,660	487,246
Gross amount	9,211,274	5,866,178
Maturity analysis		
Current	8,283,995	5,575,464
Non-current	927,279	290,714
	9,211,274	5,866,178

23(a) The Bank has changed its measurement of foreign currency denominated margin held and deposit for import clearance account balances from mid-rate to buying rate in the current accounting year. Had the buying rate been applied to the comparative year, these balances would have been less by ETB 7 million.

24 Defined benefits obligation

Severance, retirement and gratuity benefits

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

The Bank also pays employees who retire with 15 years or more of service a reward gratitude of two (2) months salary calculated on the basis of the last salary of the employee.

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24 Defined benefits obligation (Continued)

24(a) Liability recognised in the financial position

	2021 ETB'000	2020 ETB'000
Defined benefit obligation	246,424	205,866

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

	2021	2020
At the beginning of the year	205,866	167,936
Current service cost (note 24b)	15,427	13,459
Interest cost (note 24b)	30,676	20,001
Remeasurement losses (note 24c)	2,434	11,682
Benefits paid	(7,979)	(7,212)
At the end of the year	246,424	205,866

24(b) Amount recognised in the profit or loss

	2021	2020
Current service cost	15,427	13,459
Interest cost	30,676	20,001
	46,103	33,460

24(c) Amount recognised in other comprehensive income:

	2021	2020
Actuarial (gains) on economic assumptions	(4,982)	(35,345)
Actuarial losses on experience	7,416	47,027
	2,434	11,682

24(d) The significant actuarial assumptions were as follows:

i) *Financial assumption long term average*

	2021	2020
Discount rate per annum	14.50%	14.10%
Inflation rate	10.00%	10.00%
Long term salary increases	12%	12%

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24 Defined benefits obligation

24(d) The significant actuarial assumptions were as follows: (Continued)

i) *Financial assumption long term average (Continued)*

Discount rate

IAS19 requires that the discount rate be set based on the yields of appropriate term high quality corporate bonds. If no deep market in such bonds is available, accounting standards require that the yield on government bonds of appropriate term be applied in the setting of this assumption.

In Ethiopia, there is neither a deep market in corporate nor Government bonds. Furthermore, the market for treasury bills in Ethiopia is inefficient and does not appear to be market-determined. IAS19 does not provide guidance for setting the discount rate in a country with limited Government bonds or instruments.

The Ethiopian Banking Association (EBA) has therefore advised on the use a discount rate of 14.50% as at June 30 2021 (30 June 2020: 14.10%).

Long term salary increases

Future salary increases are usually linked with a long-term future inflation assumption, plus a margin in respect of merit or promotional increases. Long term salary increases of 2% higher than the assumed long-term inflation rate on average, has been applied.

ii) *Mortality in service*

In determining an appropriate mortality table to use for the valuations, the Bank considered the mortality rates published in the Demographic and Health Survey ("DHS") 2016 report compiled by the Central Statistic Authority (CSA).

	2021		2020	
Age	Male Mortality rate	Female Mortality rate	Male Mortality rate	Female Mortality rate
20	0.306%	0.223%	0.306%	0.223%
25	0.303%	0.228%	0.303%	0.228%
30	0.355%	0.314%	0.355%	0.314%
35	0.405%	0.279%	0.405%	0.279%
40	0.515%	0.319%	0.515%	0.319%
45	0.450%	0.428%	0.450%	0.428%
50	0.628%	0.628%	0.628%	0.628%
55	0.979%	0.979%	0.979%	0.979%
60	1.536%	1.536%	1.536%	1.536%

iii) *Withdrawal from service*

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 1% at the youngest ages and 2% at age 50 and above.

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

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		Impact on defined benefit obligation			
		2021		2020	
	Change in assumption	Impact of an increase ETB'000	Impact of a Decrease ETB'000	Impact of an increase ETB'000	Impact of a decrease ETB'000
Discount rate	1.0%	(11,889)	12,605	-	-
Discount rate	1.0%	-	-	(10,212)	10,843

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Notes to the financial statements (Continued)

24(d) The significant actuarial assumptions were as follows: (Continued)

iii) *Withdrawal from service (Continued)*

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The duration of the liabilities, on which the assumptions have been set, was calculated to be 6 years in the current valuation assumptions and data (2020: 6 years).

25 Share capital

	2021 ETB'000	2020 ETB'000
Issued and fully paid:		
4,387,996 ordinary shares of ETB 1,000 each	4,387,996	3,479,224

As at 30 June 2021, the authorised share capital of the Bank comprised of 4,387,996 (2020: 3,479,224) ordinary shares with a par value of ETB 1,000. The issued shares as at 30 June 2021 are 4,387,996 (2020: 3,479,224) are fully paid. Issued and fully paid ordinary shares, which have a par value of ETB 1,000, carry one vote per share and carry a right to dividend.

26 Earnings per share

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

	2021 ETB'000	2020 ETB'000
Profit attributable to shareholders	1,726,247	1,536,933
Weighted average number of ordinary shares in issue	3,664	3,137
Basic and diluted earnings per share	471	490

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

27 Retained earnings

	2021 ETB'000	2020 ETB'000
At the beginning of the year	796,315	635,731
Prior period adjustment	-	(113,681)
Profit for the year	1,726,247	1,536,933
Directors remuneration	(2,121)	(1,500)
Transfer to legal reserve (note 29)	(431,562)	(384,233)
Dividends paid	(280,668)	(77,992)
Transfer to regulatory risk reserve (note 31)	(151,966)	(277,961)
Transfer to reserve for IFRS (note 28)	19,087	35,257
Transfer to share capital	(514,147)	(556,239)
At the end of the year	1,161,185	796,315

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Notes to the financial statements (Continued)

28 Reserve for IFRS

	2021 ETB'000	2020 ETB'000
At the beginning of the year	951,405	1,071,400
Transfer to retained earnings	(19,087)	(35,257)
Reserve for remeasurements on initial application of IFRS 16	-	(86,421)
Prior years adjustment	(10,305)	-
Reversal of amount transferred to paid up capital upon collection of the cash from shareholders	-	1,683
At the end of the year	922,013	951,405

28(a) The Accounting and Auditing Board of Ethiopia (AABE) by its letter of 30 October 2019 (19 Tikemt 2012) prohibited the distribution to shareholders by way of cash dividends and/or capital increase of the amounts that arise from remeasurement adjustments from first time adoption of IFRSs and adoption of new standards maintained in retained earnings and under any other account(s) until a directive is issued in this regard.

29 Legal reserve

	2021 ETB'000	2020 ETB'000
At the beginning of the year	2,369,430	1,985,197
Transfer from profit or loss	431,562	384,233
At the end of the year	2,800,992	2,369,430

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

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		2021	2020
30	**Special reserve**	**ETB'000**	**ETB'000**
	At the beginning of the year	100	100
	At the end of the year	100	100

The Bank has opted to maintain a special reserve in compliance with Proclamation No. 592/2008, Art. 21(7).

		2021	2020
31	**Regulatory credit risk reserve**	**ETB'000**	**ETB'000**
	At the beginning of the year	743,267	465,306
	Transfer from retained earnings	151,966	277,961
	At the end of the year	895,233	743,267

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

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

Where the loan loss impairment determined using the NBE guidelines is less than the loan loss impairment determined using expected credit loss model under IFRSs, the difference is transferred from regulatory risk reserve to retained earning to the extent of the non-distributable reserve previously recognised.

		2021	2020
32	**Other reserves**	**ETB'000**	**ETB'000**
	At the beginning of the year	(25,169)	(15,512)
	Remeasurement (loss) on retirement benefits obligations,	(1,704)	(8,177)
	Changes in the fair value of financial assets at FVTOCI	(15,557)	(1,480)
	At the end of the year	(42,430)	(25,169)
	Other reserves are made up as follows:-		
	Fair value reserve	4,106	19,664
	Defined benefit obligations reserve	(46,536)	(44,833)
		(42,430)	(25,169)

Fair value reserve represents the surplus or losses arising on valuation of financial assets at FVTOCI and is non-distributable.

Defined benefit obligations reserve represents the remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions. They are recognised in the period in which they occur, directly in other comprehensive income.

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		2021	2020
33	**Cash generated from operating activities**	**ETB'000**	**ETB'000**
	Profit before tax	2,426,804	1,789,930
	Adjustments for non-cash items:		
	Adjustments on IFRS 16 adoption	-	(1,022,931)
	Prior period adjustments	-	(113,681)
	Depreciation of investment properties	16,874	16,370
	Depreciation of property and equipment	230,425	204,241
	Amortisation of intangible assets	79,455	29,381
	Depreciation expense on right-of-use asset	294,286	268,656
	Adjustments and reclassification of property and equipment	-	9,109
	Adjustments on right-of-use assets	(292,433)	-
	Gain on disposal of property and equipment	(5,664)	(5,753)
	Impairment charge/ (reversal) on loans and advances	248,779	(69,976)
	Impairment charge on IFB financing	2,769	179
	Impairment charge on receivables and other exposures	2,510	7,012
	Defined benefit obligation expense	46,103	33,460
	Changes in operating assets and liabilities:		
	Changes in loans and advances	(19,831,414)	(9,631,378)
	Changes in IFB financing	(1,713,715)	(542,341)
	Change in other assets	(820,524)	629,168
	Changes in reserve with NBE	(1,050,000)	(458,866)
	Changes in customer deposits	21,059,651	8,772,345
	Changes in other liabilities	3,255,096	1,631,057
	Cash generated from operating activities	3,949,002	1,545,982

In the statement of cash flows, profit on sale of property, plant and equipment (PPE) comprise:

	2021	2020
Proceeds on disposal	6,125	7,505
Net book values of property and equipment disposed (Note 21a)	(461)	(1,752)
Gain on sale of property and equipment	5,664	5,753

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Notes to the financial statements (Continued)

34 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both.

In the normal course of business, a number of banking transactions are entered into with related parties including staff, Board Directors, their associates and companies associated with Directors. These include loans, deposits and foreign currency transactions. Loans and advances to customers include loans and advances to Board Directors and to companies associated with Directors. Contingent liabilities include guarantees and letters of credit for companies associated with Directors.

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

34(a) Directors and employees

i) The average number of staff employed by the Bank during the year was as follows:

	2021 Number	2020 Number
Senior and middle management	681	645
Line management	829	782
Professional	3,938	3,699
Clerical	291	304
Non-clerical	683	686
	6,422	6,116

ii) The table below shows the number of employees' emoluments in the year and were within the bands stated.

Salary band	2021 ETB'000	2020 ETB'000
0 - 9,999	1,388	2,408
10,000 - 30,000	4,640	3,454
30,001 - 50,000	370	243
50,001 - 100,000	20	9
Above 100,000	4	2
	6,422	6,116

34(b) Loans and advances

i) There were no loans and advances between the Bank and Directors as at 30 June 2021.

ii) Loans to executive management

	2021 ETB'000	2020 ETB'000
At the beginning of the year	21,970	22,317
Net movement during the year	9,851	(347)
At the end of the year	31,821	21,970

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Notes to the financial statements (Continued)

34 Related party transactions (continued)

34(c) Customer deposits

	2021 ETB'000	2020 ETB'000
Directors and key management personnel		
At the beginning of the year	8,744	3,783
Net movement during the year	(6,304)	4,961
At the end of the year	2,440	8,744

The above outstanding balances arose from the ordinary course of business and are substantially on the same terms, including interest rates as for comparable transactions with third-party counterparties.

34(d) Key management compensation

Key management has been determined to be the members of the Board of Directors and the executive management of the Bank. The compensation paid or payable to key management is shown below.

	2021 ETB'000	2020 ETB'000
Salaries and other short-term benefits	15,925	10,819
Post-employment benefits	1,714	1,058
Sitting allowance	1,791	1,791
Total	19,430	13,668

Compensation of the Bank's key management personnel includes salaries and contributions to the post-employment defined benefits plans.

35 Contingent liabilities

35(a) Claims and litigation

The Bank is a party to numerous legal actions brought by different organisations and individuals arising from its normal business operations. The maximum exposure of the Bank arising from these legal cases as at 30 June 2021 is ETB 18.6 million (2020: ETB 15.6 million). Provision has been made in the financial statements for those legal cases where the Directors believe that it is probable that economic benefits would flow out of the Bank in respect of these legal actions.

35(b) Guarantees and letters of credit

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

The table below summarises the fair value amount of contingent liabilities for the account of customers:

	2021 ETB'000	2020 ETB'000
Loan commitments	5,022,259	4,957,083
Unutilised overdraft facilities	2,616,748	2,578,408
Guarantees	41,349,680	16,712,697
Letters of credit	4,027,949	3,361,802
Total	53,016,636	27,609,990

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Notes to the financial statements (Continued)

36 Operating lease commitments - the Bank as lessee

The Bank leases various properties under non-cancellable operating lease agreements. The lease terms are between two and five years, and the majority of these lease agreements are renewable at end of the each lease period at market rate.

The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it does not retain all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

37 Lease liability and commitments

a) Lease liabilities in (ETB '000)

	As at 1 July 2020	Additions	Adjustment	Paid during the year	Interest charge for the year	As at 30 June 2021
Office rent	(215,969)	(78,729)	(12,712)	16,904	(19,461)	(309,967)
ATM	(4,518)	(746)	(956)	1,647	(369)	(4,942)
Leasehold land	(10,123)	-	6	1,316	(711)	(9,512)
Total	(230,610)	(79,475)	(13,662)	19,867	(20,541)	(324,421)

	As at 1 July 2019	Additions	Adjustment	Paid during the year	Interest charge for the year	As at 30 June 2021
Office rent	(401,645)	(51,556)	-	259,664	(22,432)	(215,969)
ATM	(6,676)	(575)	-	3,081	(348)	(4,518)
Leasehold land	(10,787)	-	-	1,365	(701)	(10,123)
Total	(419,108)	(52,131)	-	264,110	(23,481)	(230,610)

b) Lease commitments in (ETB'000)

	1 July 2020 up to 30 June 2021	1 July 2021 up to 30 June	1 July 2022 up to 30 June 2023	1 July 2023 up to 30 June 2024	1 July 2024 up to 30 June 2025	Above
ATM	1,506	1,004	1,004	1,004	-	-
Leasehold land	1,061	1,061	1,061	1,061	1,061	4,817
Office rent	51,131	51,131	51,131	51,131	11,446	-
Total	53,698	53,196	53,196	53,196	12,507	4,817

38 Operating lease commitments - the Bank as lessor

Rental income earned during the year was ETB 84.5 million (2020: ETB 70.8 million). At the end of the reporting year, the Bank had contracted with tenants for the following future lease receivables:

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Notes to the financial statements (Continued)

38 Operating lease commitments - the Bank as lessor (Continued)

	2021 ETB'000	2020 ETB'000
No later than 1 year	214,176	203,467
Later than 1 year and no later than 5 years	8,201	7,791
Later than 5 years	-	-
Total	222,377	211,258

39 Events after reporting period

39(a) The military operations in Northern Ethiopia since November 2020 have impacted the Bank's operations. The Directors will continue to monitor and evaluate the situation.

39(b) In the opinion of the Directors, except for the possible impact of the matter indicated in 39(a), there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2021 and its profit for the year then ended, which have not been adequately provided for or disclosed. (2020: none)

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Notes to the financial statements (Continued)

40 Notes on Interest Free Banking(IFB) Service

Dashen Bank's interest free banking (IFB) became operational on 5 March 2018. The Bank has established a separate book of accounts for IFB as per the requirements of the National Bank of Ethiopia Directive No. SBB/72/2019. As at the end of the reporting period, the financial performance and position of the Interest Free Banking operations of the Bank do not fulfil the quantitative threshold of 10% in line with IFRS 8 - Operating Segments. However, the management believes that voluntary disclosure is necessary to provide useful information to users of the financial statements particularly the regulatory authority in a way presented as follows:

Segment Reporting
Statement of Profit or Loss
For the year ended 30 June 2021

	Interest Free banking ETB'000	Conventional Banking ETB'000	Total ETB'000
Interest income	-	7,964,250	7,964,250
Interest expense	-	(2,960,076)	(2,960,076)
Net interest income	-	**5,004,174**	**5,004,174**
Fee and commission income	19,981	1,995,137	2,015,118
Fee and commission expense	(18,286)	(77,301)	(95,587)
Net fee and commission income	**1,695**	**1,917,836**	**1,919,531**
Financing and advances	90,641	-	90,641
Other operating income	417	188,988	189,405
(Loss) on foreign exchange	(3,288)	(1,039,781)	(1,043,069)
Total operating income	**89,465**	**6,071,217**	**6,160,682**
Loan and IFB financing impairment (charge)	(2,769)	(248,779)	(251,548)
Impairment losses on other exposures	-	(2,541)	(2,541)
Net operating income	**86,696**	**5,819,897**	**5,906,593**
Employee benefits expense	(51,696)	(2,093,334)	(2,145,030)
Other operating expenses	-	(1,334,759)	(1,334,759)
Profit before tax	**35,000**	**2,391,804**	**2,426,804**

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Notes to the financial statements (Continued)

40 Notes on Interest Free Banking (IFB) Service (Continued)

Segment Reporting
Statement of Financial Position
As at 30 June 2021

	Interest Free Banking ETB'000	Conventional Banking ETB'000	Total ETB'000
ASSETS			
Cash and balances with banks	385,700	7,605,625	7,991,325
Reserve with National Bank of Ethiopia	-	3,729,813	3,729,813
Loans and advances to customers	-	61,650,172	61,650,172
IFB Financing	2,253,108	-	2,253,108
Financial assets at fair value through OCI	-	112,138	112,138
Debt instruments at amortised cost	-	12,072,387	12,072,387
Other assets	44,473	1,580,651	1,625,124
Investment properties	-	764,122	764,122
Intangible assets	-	211,454	211,454
Property and equipment	21,551	4,150,145	4,171,696
Deferred tax assets	-	115,621	115,621
Total Assets	**2,704,832**	**91,992,128**	**94,696,960**
LIABILITIES			
Customer deposits	4,590,616	69,962,890	74,553,506
Current income tax	-	560,667	560,667
Other liabilities	(1,920,784)	11,132,058	9,211,274
Defined benefit obligation	-	246,424	246,424
Total Liabilities	**2,669,832**	**81,902,039**	**84,571,871**
EQUITY			
Share capital	-	4,387,996	4,387,996
Retained earnings	35,000	1,126,185	1,161,185
Reserve for IFRS	-	922,013	922,013
Legal reserve	-	2,800,992	2,800,992
Special reserves	-	100	100
Regulatory risk reserve	-	895,233	895,233
Other reserves	-	(42,430)	(42,430)
Total equity	**35,000**	**10,090,089**	**10,125,089**
Total Equity and Liabilities	**2,704,832**	**91,992,128**	**94,696,960**

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Notes to the financial statements (Continued)

40 Notes on Interest Free Banking (IFB) Service (Continued)

Segment Reporting
Statement of Profit or Loss
For the year ended 30 June 2020

	Interest Free banking ETB'000	Conventional Banking ETB'000	Total ETB'000
Interest income	-	5,824,000	5,824,000
Interest expense	-	(2,458,864)	(2,458,864)
Net interest income	-	**3,365,136**	**3,365,136**
Fee and commission income	3,503	1,509,409	1,512,912
Fee and commission expense	(7,424)	(73,185)	(80,609)
Net fee and commission income	**(3,921)**	**1,436,224**	**1,432,303**
Financing and advances	11,292	-	11,292
Other operating income	1,152	208,766	209,918
(Loss) on foreign exchange	(712)	(341,199)	(341,911)
Total operating income	**7,811**	**4,668,927**	**4,676,738**
Loan and IFB financing impairment (charge)/reversal	(179)	69,976	69,797
Impairment losses on other exposures	-	(7,012)	(7,012)
Net operating income	**7,632**	**4,731,891**	**4,739,523**
Employee benefits expense	(46,092)	(1,840,245)	(1,886,337)
Other operating expenses	-	(1,063,256)	(1,063,256)
(Loss)/profit before tax	**(38,460)**	**1,828,390**	**1,789,930**

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Notes to the financial statements (Continued)

40 Notes on Interest Free Banking (IFB) Service (Continued)

Segment Reporting
Statement of Financial Position
As at 30 June 2020

	Interest Free Banking ETB'000	Conventional Banking ETB'000	Total ETB'000
ASSETS			
Cash and balances with banks	368,285	5,692,861	6,061,146
Reserve with National Bank of Ethiopia	-	2,680,000	2,680,000
Loans and advances to customers	-	42,067,537	42,067,537
IFB Financing	542,162	-	542,162
Financial assets at fair value through OCI	-	95,778	95,778
Financial assets at amortised cost	-	11,125,720	11,125,720
Other assets	1,665,643	(859,095)	806,548
Investment properties	-	780,996	780,996
Intangible assets	-	91,618	91,618
Property and equipment	-	3,881,642	3,881,642
Deferred tax assets	-	128,163	128,163
Total Assets	**2,576,090**	**65,685,220**	**68,261,310**
LIABILITIES			
Customer deposits	2,366,033	51,127,822	53,493,855
Current income tax	-	385,938	385,938
Other liabilities	245,041	5,621,137	5,866,178
Defined benefit obligation	-	205,866	205,866
Total Liabilities	**2,611,074**	**57,340,763**	**59,951,837**
EQUITY			
Share capital	-	3,479,224	3,479,224
Retained earnings	(34,984)	827,474	792,490
Reserve for IFRS	-	951,405	951,405
Legal reserve	-	2,368,156	2,368,156
Special reserves	-	100	100
Regulatory risk reserve	-	743,267	743,267
Other reserves	-	(25,169)	(25,169)
Total equity	(34,984)	8,344,457	8,309,473
Total Equity and Liabilities	**2,576,090**	**65,685,220**	**68,261,310**

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