Shabelle Bank

ANNUAL REPORT

2022|23

FOR THE FINANCIAL YEAR

ENDED 30 JUNE 2023

BANK OF ETHICS

FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2023

PERFORMANCE HIGHLIGTHS

THE YEAR IN NUMBERS 2022/23

FINANCIAL PERFORMANCE

3.76 Billion
TOTAL ASSET

669.35 Million
CAPITAL

33.18 Million
PROFIT BEFORE TAX

BANK PERFORMANCE

801.6 Million
DEPOSITS

50
BRANCHES

651
STAFF

426.55 Million
LOAN DISBURSEMENT

HELLOCASH

1.8 Million
CUSTOMERS

5,000 K
AGENTS

43.2 Billion
VALUE
TRANSACTIONS PER ANUM

BANK TO BANK TRANSACTION VIA ETHIOSWITCH

1.6 Billion
Receive

694 Million
Send

PARTENERSHIP

Contents

PROFILE

- Shabelle Bank was started its journey as microfinance in 2011.
- Has been serving as MFI since from 2011.
- Relicensed as Shabelle Bank on Decemebr 2021.
- Has been playing a catalytic role in the socio-economic development of the region.
- Had 50 branches across the country as of 30 June 2023.
- Combines a wide capital base with more than 651 committed permanent

VISION

To be a competent, sustainable, and leading Sharia-compliant banking services provider nationally and internationally while remaining committed to providing quality microfinance services.

MISSION

To provide efficient and effective full-fledged banking services based on Sharia laws by deploying honest and motivated staff and state of the art technology, thereby, optimizing shareholders' interest and inclusion of poor through microfinance business.

MOTTO

Bank of Ethicks

VALUES

- S Social Responsibility
- H Honesty
- A Accountability
- B Building relationships
- E Empowerment
- L Loyalty
- L Leadership
- E Excellence

BOARD OF DIRECTORS

H.E MR. HASSEN MOHAMED HUSSIEN
Chairperson

MR. GULED MOHAMED OMER
Board Memeber

MR. ABDULAHI ABDIKADIR FARAH
Board Member

DR. MOHAMED ABDULGHANI ELMI
Board Member

MR. OMER ABDULLAHI HERSI
Board Member

MRS. FATUMO ABDULAHI
Board Member

MR. ABDI ALI JAMI
Board Member

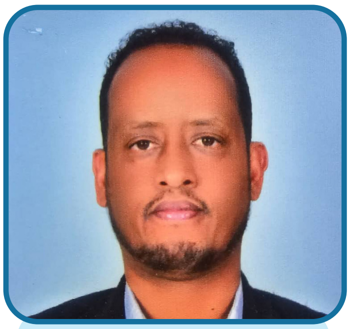
MR. MOHAMED MUHUMED
Board Member

MR. ABDILAHI FARAH ADEN
Board Member

MR. YASSIN ISSE OSMAN
Board Member

DR. ALI MOHAMUD MUHUMED
Board Member

DR. ABDIFATAH MAHAMUD BARKADLE
Board Member



MR. ABDI MOHAMED MAHDI
Board Member

BOARD CHAIRPERSON'S MESSAGE

Message of BOD Chairman

Honorable Shareholders,

On behalf of the Board of Directors of the Shabelle Bank and myself, it is a great honor to present Shabelle Bank annual report along with the "Audited Financial Statements" of the Bank to the 2nd Ordinary Annual General Meeting of Shareholders for the Fiscal Year 2022/23 that ended June 30, 2023. The past year was a challenge both nationally and globally. Despite these combined challenges, the Ethiopian economy managed to register positive economic growth.

It was a commendable performance that the Shabelle Bank registered in asset growth and profitability under such tight macro-economic conditions. Shabelle Bank continued to build upon its past accomplishments through better services and accessibility.

As a result, the Bank marked yet another successful year. Continuing its past higher accomplishments in the ended Fiscal Year, Shabelle Bank achieved a gross profit before tax of Birr 33.12 million, grew by 11.04 Million from that of the preceding year. The Bank has also registered substantial growth in incremental deposits, wherein the total deposit amount reached Birr 801.6 Million as at June 30, 2022, exhibiting a Birr 767.3 Million growth from last year's level. Total loan disbursement Birr 426.55 Million at the end of 2022/23. The Bank's total assets also grew by 19% and reached Birr 3.76 billion while total equity rose by 14% and reached Birr 669.35 Million. This year, business development and service expansion have received do focus in line with the Bank's strategic orientation of availing excellent banking services. The Bank continued investing in accessibility and customer base through increased 7 branches. Towards excellent banking services, therefore, several activities and projects of strategic importance have been carried out including the secured operational commencement license from national bank of Ethiopia, Implemented core banking system-branch module, Branch standardization, In house building for central vault construction, expanding mobile and agent banking (hellocash) ,Micro financing service, and enhanced external partnership.

The products and services have been offered through more number of the Bank's branches during the year demonstrating much progress in terms of operational and customer excellence.

Moreover, Shabelle Bank is playing a significance role in realization of the following strategic pillars;

- **Digital transformation:** focused on digital transformation to provide efficient and effective financially inclusive services.
- **Interest-free banking:** Provide interest-free banking services offering a suite of products and services that are compliant with Shari'ah principles.
- **Financial inclusion:** offered micro-finance services by serving the needs of clients at the bottom of the pyramid and served the poor who have no access to banks both in the rural and urban areas and support the poverty reduction effort of the regional state and the country at large.
- **Regional and social outreach:** Expanding reach in the new target market beyond the Somali Region like Hawaday Branch, Marcato Branch Wollo Safer Branch and all customers including the low and middle-income segment.

Hassan Mohamed
Board Chairperson

EXECUTIVE **MANAGEMENT**

H.E MR. KHADAR AHMED
CEO

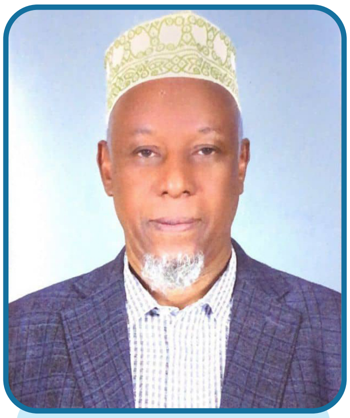
MR. NUR MOHAMED ISMAIL
VP Microfinance Service

GETACHEW YIMER ADDIS
VP Corporate Service

MR. GELETA BEKELE GURMESSA
Executive Banking Service Director

MR. AHMED OMER MUHUMED
Executive CEO Office Director

MR. MOHAMED SHEIK OSMAN
Executive HR & Admin Director



MR. SADIQ AHMED MOHAMED
Executive Business Strategy and ICT

MR. ABDIHAMID ABDIKADIR MURSAL
Executive Internal Audit Director

MR. OMER JAMA ISMAIL
Executive Risk and Complaince Director

MR. ABDIWAHAB MIRAD LAYLI
Executive CTO Director

CHIEF EXECUTIVE OFFICER'S MESSAGE

Message of CEO

Dear Shareholders,
It is with great pleasure and honor that to report to you the achievement of shabelle Bank for the Fiscal Year ending June 30, 2023. During the year, we have accomplished a lot in financial and operational areas, despite the wide -ranging shortfalls in the overall operating environment.
Shabelle Bank plays a crucial role in simplifying service, and I am pleased to highlight the key accomplishment of the past fiscal year;

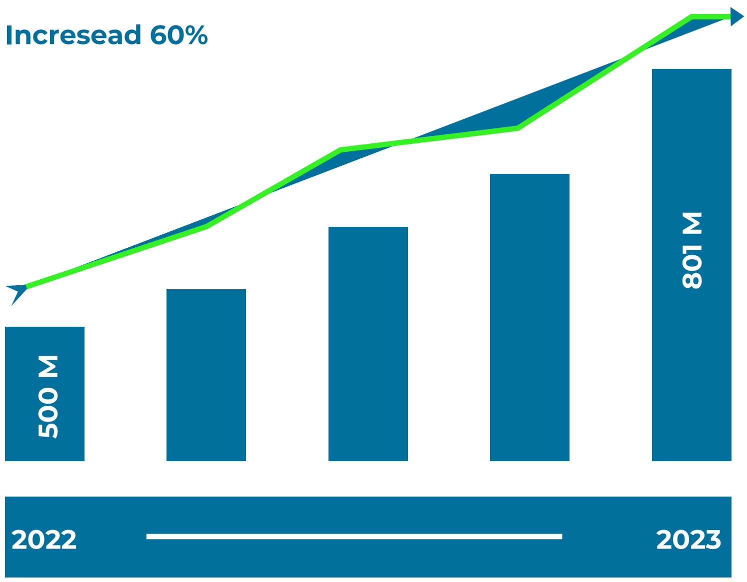
1. Secured commencement license from national bank of Ethiopia: we have been prepared 42 policies and procedures of the bank which are aligned guides from national bank of Ethiopia.

1. Shabelle Bank becomes a member of SWIFT, BIC activation and SWIFT end user training has been conducted.
2. Branch Standardization; Shabelle bank equipped, installed IT infrastructure and provided all required materials for 29 bank branches according to the national bank of Ethiopia criteria.
3. Central Vault construction: in house building for the central vault in order to secure commencement license.
4. Shabelle Bank entire workforces are 651.
5. Opened 7 new branches for both in Somali region and other regions.
6. Financed 1,593 customers with the value of Birr 426,552,813.17 which is aligned sharia principles with murabaha mode of financing for solidarity group of loan, MSE's, Revolving fund and staff loan.
7. Annual repayment performed Birr 510,179,901.
8. Total saving mobilized Birr 801,613,727.77.
9. Performed Ethio-switch inward and out ward transactions which the value of Birr 1,680,284,253.02 and 694,731,199.52 respectively through Ethio-switch system.
10. Performed cash transfer for both government and non-government organization with the value of Birr 2,865,791,135 while gained commission become Birr 54,724,952.27
11. Performed RTGS system inbound and out bound transactions Birr 42,031,796.10 and Birr 212,045,880.50 respectively.
12. Core banking system training; 10 of the project team members has been sent to Bahrain while all operation team has been trained in house.
13. Share management system has been developed in house.
14. Sharia Training for all staffs has been conducted.

Khadar Ahmed Abdi
CEO

DEPOSITS

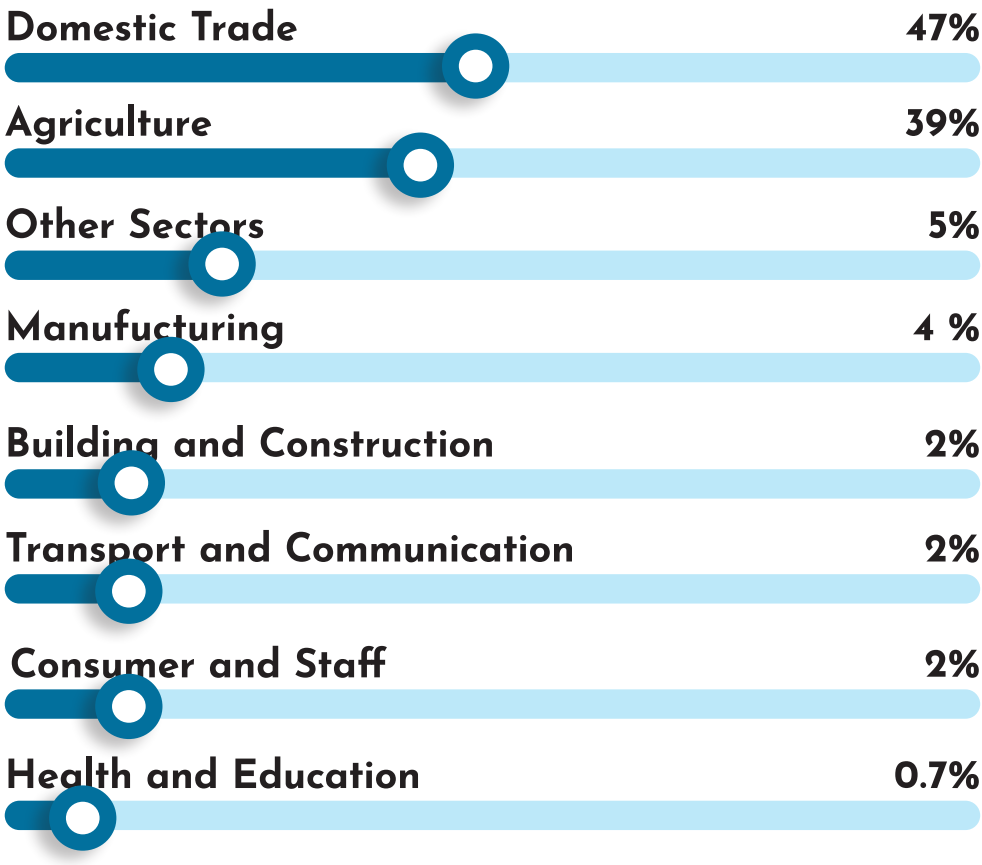
Growth of the saving mobilization trend analysis for the last two years: the current FY 22/23 achievement was ETB 801,613,727.77, compared to the previous FY 21/22 achievement was ETB 500,535,069.69. The increased amount in the current FY 22/23 was ETB 301,078,658.08, according to a percentage of 60%.



INVESTMENTS AND ADVANCES

The outstanding balance of Investment of June 30, 2023, is ETB 1,982,257,312.29. Investment portfolio increased by ETB 163,209,370.20 from the previous FY 21/22 outstanding of ETB 1,919,047,942.09.

INVESTMENTS BY ECONOMIC SECTOR



BALANCE **SHEET**

Asset

The total assets of SB reached ETB **3.76 billion** as at 30 June 2023, growing from the 30 June 2022 amount by **19%**. The major contributors to the rise included the growth of other receivables (47%), cash & cash equivalents (21%) and Property, Plant and Equibment (18%).

Liabilities

The overall liabilities of SB reached ETB **3.09 billion** in the 2022/23 fiscal year, increasing by 20% from the previous year's balance. Customers' deposit accounted for 58% of the total liabilities. The total deposit of the bank reached ETB **801.6 Million**, registering a growth of 60% compared with the balance on 30 June 2022.

Capital

SB's capital and reserves reached **ETB 669.35 Million**, which shows an 14% increment from the previous year's position.

INCOME

SB's gross income in the 2022/23 fiscal year was ETB **517.1 Million**, which showed a **61%** increase according to the income of the previous year.

Particular	2023/22 FY Mn. ETB	2021/22 FY Mn. ETB	Growth (%)
Total Income	**517.18**	**320.91**	**61**
Income	517.18	320.91	61
Total Expense	**483.99**	**299.20**	**62**
Expense	483.99	299.20	62
Profit Before Tax	**33.12**	**21.70**	**1.53**

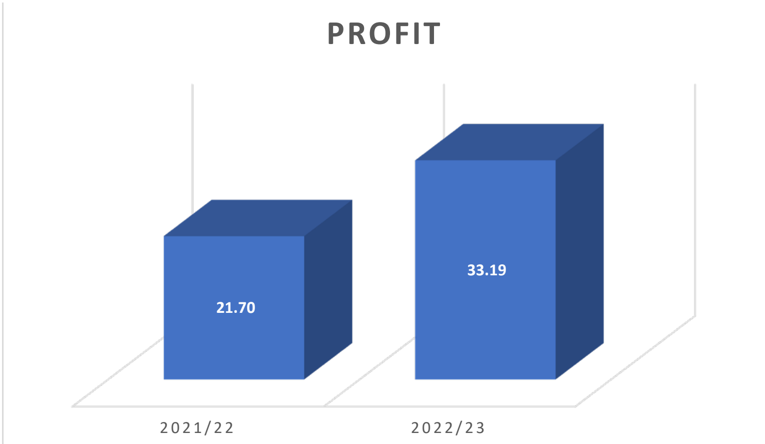
Expense

The total expense of the bank for the 2022/23 budget year grew by **62%** from the preceding year to reach **ETB 483.99 Million**. Operating expense increased by 45%. On the other hand, personal expense rose to **187.4 Million**, increasing by **34%** according to the previous year.

The bank's income continued to grow across the last two fiscal years till 2022/23, and the fee and commission income consistently contributed to the growth in total income.

PROFIT

SB registered a net profit before tax of ETB **33.19 million** during 2022/23 budget year, which grew by **53%** compared with the preceding year.



The bank's Return on Assets (RoA) stood at 0.88% while its Return on Equity (RoE) stood at 0.69%, both increasing from those of the preceding year.

Particulars	2023/22 FY (%)	2021/22 FY (%)	Growth (%)
ROA	0.88	0.69	0.20
ROE	5	4	1

FINANCED **PROJECTS**

Poultry

First Phase financed **500 k**
Second Phase financed **2.5 M**

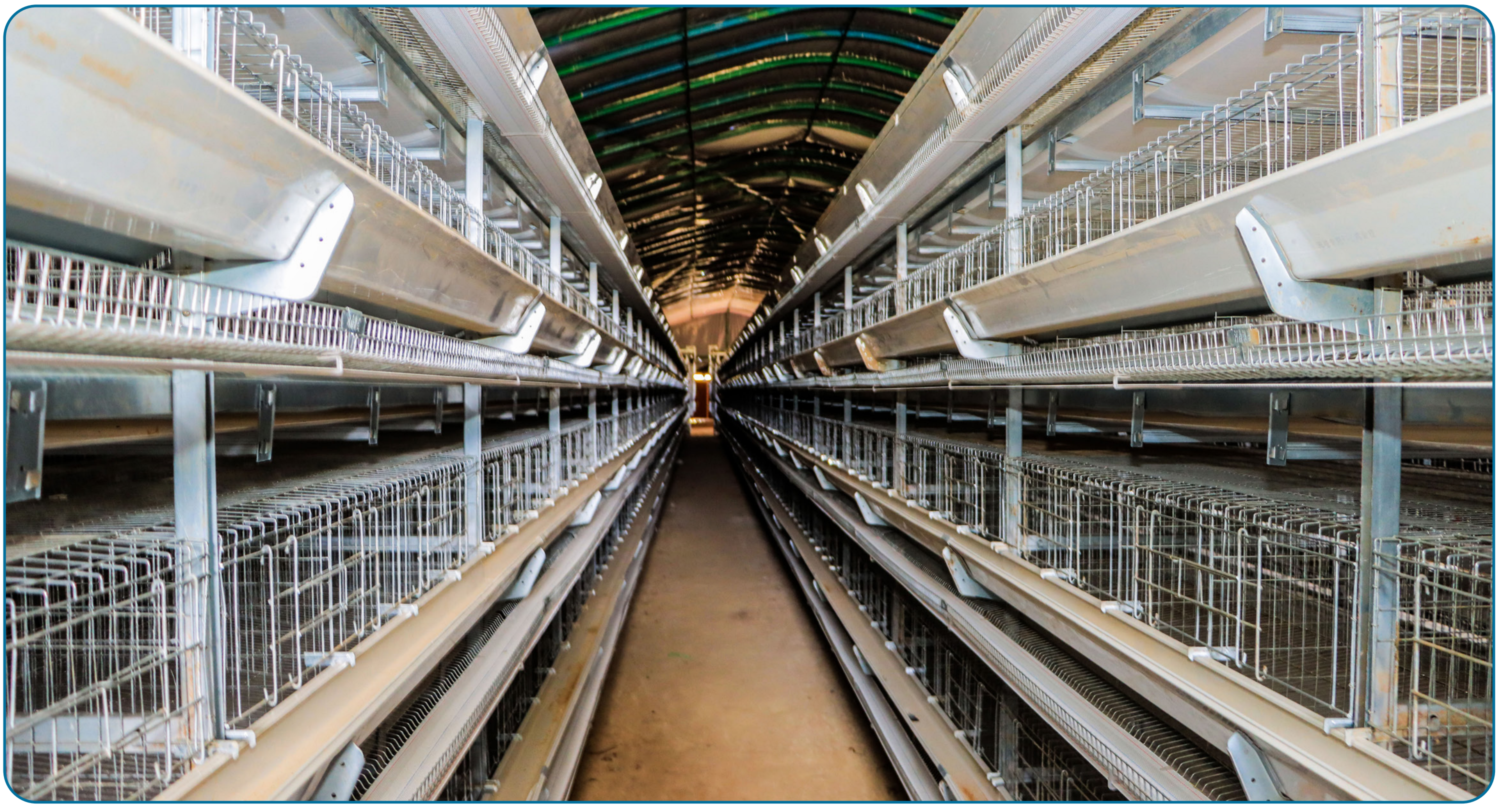


PHOTO GALLERY

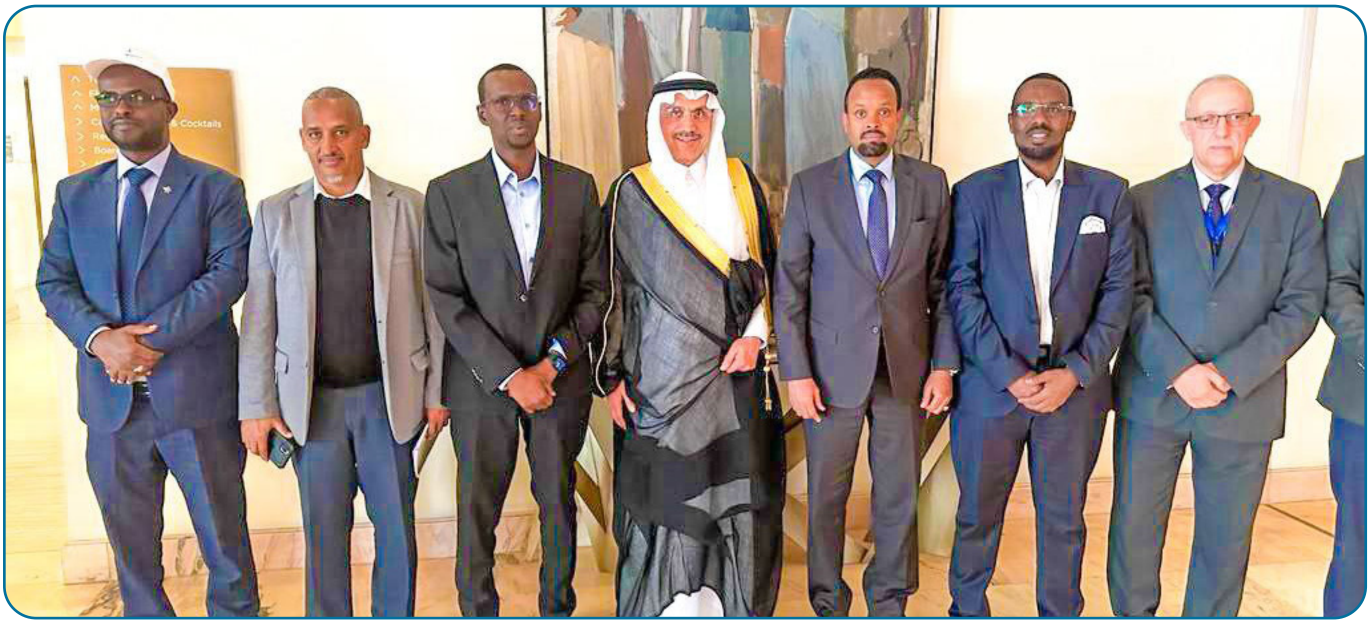
Jigjiga Grand Iftar

Commencement Operation License Grand Ceremony

Share Selling Events

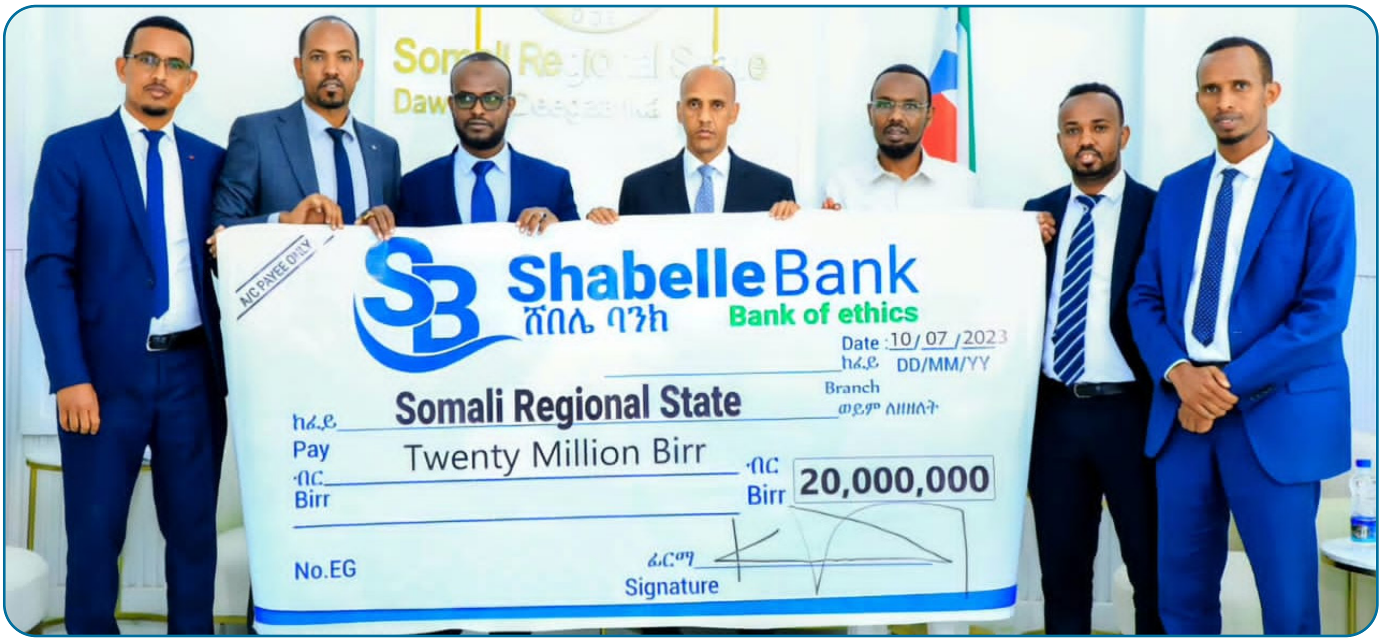
Board Monthly Performance Meeting

Partnership Discussion with Islamic Development Bank Group



Qur'an Competition Sponsership

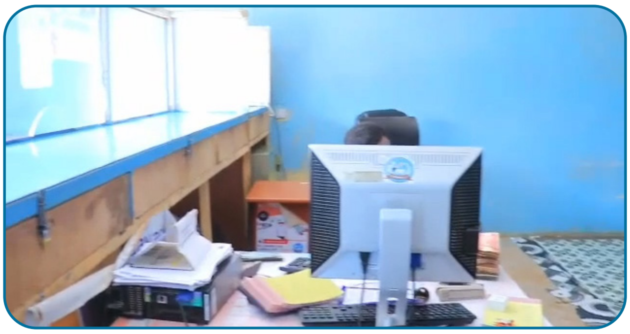
Donation for Jigjiga Taiwan **Fire Incident**



Staff Trainings

Branch Standardization

Before



After

Shabelle Bank

AUDITORS' REPORT

2022|23

FOR THE FINANCIAL YEAR

ENDED 30 JUNE 2023

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SURAFEL AKALU
Certified Audit Firm

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Addis Ababa

Email:- sacertifiedauditor@gmail.com

INDEPENDENT AUDITORS' REPORT TO THE MANAGEMENT OF SHABELLE BANK S.C.

Un-Qualified Opinion

We have audited the accompanying financial statements of Shabelle Bank S.C., set out on pages 5 to 40, which comprise the financial position as at 30 June 2023, the statements of profit and loss and other comprehensive incomes, statements of changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Shabelle Bank S.C. as at 30 June 2023, its financial Performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the commercial code of Ethiopia 2013.

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 business in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our ethical responsibilities in accordance with the IESBA Code.

Management's Responsibility for the Financial Statements

The managements are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the accounting policy adopted by the company, and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

SHABELLE BANK S.C.
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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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the business 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. However, future events or conditions may cause the business to cease to continue as a going concern.

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

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

Report on Other Legal Requirements

We have obtained and reviewed and have given our comment on the final report of the Board of Directors of the Company in so far as it relates to these financial statements and pursuant to article 348 & 349 of the Commercial Code of Ethiopia 2013. We recommend approval of these financial statements.

The report of the Board of Directors does not include a statement on the issuance of dividends. As a result, we do not express an opinion on the compliance of the issuance of dividends pursuant to the Commercial Code of Ethiopia 2013.

Currency: Ethiopian Birr

Surafel Akalu

Chartered Certified Accountants (UK)
Certified Audit Firm in Ethiopia

Addis Ababa
21 December 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Commercial Code of Ethiopia 2013 of require the Directors to prepare financial statements for each financial year that present fairly the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. The financial statements have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with the International Financial Reporting Standard (IFRS) and the requirements of the Commercial Code of Ethiopia. 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 Company and of its financial results in accordance with the International Financial Reporting Standard (IFRS).

The Directors further accept responsibility for the maintenance of accounting records that may be relied up on in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the Directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known risks across the Company. While operating risk cannot be fully eliminated, the company endeavours to minimize it by ensuring the appropriate infrastructure, controls, systems, and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

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

The financial statements were approved by the Directors on 21 December 2023, and are signed on behalf of the shareholders by the chairman of Board of Directors and the CEO of the Company as follows:

Hasan Muhamed Husen	Khader Ahmed Abdi
Chairman Board of Directors	Chief Executive Office

SHABELLE BANK S.C.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPARATIVE INCOME
For the year ended 30 June 2023

Currency: Ethiopian Birr

	Notes	30-Jun-23	30-Jun-22
Mark-up Income	5	192,911,581	52,838,101
Mark-up Expense	6	-	-
Net Mark-up Income		**192,911,581**	**52,838,101**
Fee and Commission Income	7	272,949,954	249,555,139
Other Operating Income	8	51,316,948	18,513,493
Investment Income	9	-	-
		324,266,902	**268,068,632**
Total Operating Income		**517,178,483**	**320,906,734**
Loan Impairment Charge	10	14,622,818	3,532,509
Personnel Expense	11	187,417,515	124,946,220
Fee and Commission Expense	12	91,239,225	76,343,663
Depreciation Expense of Property, Plant and Equi	13	17,150,564	4,525,039
Other Operating Expense	14	173,561,263	89,856,920
Total Operating Expense		**483,991,386**	**299,204,351**
Profit Before Tax		33,187,097	21,702,382
Income Tax Expense on PL	16.1	13,348,791	446,298
Profit after tax for the year		**19,838,306**	**21,256,084**
Other Comprehensive Income	15	8,927,044	2,429,846
Income Tax Expense on OCI	16.1	(2,678,113)	(728,954)
Other Comprehensive Income (Net)		6,248,931	1,700,892
Total comprehensive income for the year		**26,087,236**	**22,956,977**

Hasan Muhamed Hasen
Chairman Board of Directors

Khader Ahmed Abdi
CEO

SHABELLE BANK S.C.

STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2023

Currency: Ethiopian Birr

	Notes	30-Jun-23	30-Jun-22
ASSETS			
Cash and cash equivalents	15	853,499,189	725,819,584
Loans and advances to customers	16	1,877,176,988	1,888,811,625
Investment securities:	17		
– Financial assets measured at FVPL		83,749,814	11,967,846
Other Receivable	18	494,372,461	211,398,435
Inventories	19	23,939,769	19,581,688
Property, plant and equipment	20	407,520,195	297,945,178
Intangible Assets		20,134,868	3,609,329
TOTAL ASSETS		**3,760,393,285**	**3,159,133,684**
LIABILITIES			
Deposits from customers	22	801,613,728	500,535,068
Other Payables	23	2,270,400,289	2,070,792,576
Current tax payable	16.3	16,434,147	2,086,466
Differed tax liability	16.4	768,010	(911,214)
Retirement benefit obligations	24	1,830,052	672,068
TOTAL LIABILITY		**3,091,046,226**	**2,573,174,964**
EQUITY			
Paid Up Capital	25	594,930,000	515,940,000
Donated Equity	26	3,918,681	3,918,681
Legal Reserve	27	14,754,681	10,000,000
Retained Earning	28	29,807,697	30,164,040
Revaluation Reserve	33	25,936,000	25,936,000
TOTAL EQUITY		**669,347,059**	**585,958,720**
TOTAL EQUITY AND LIABILITY		**3,760,393,285**	**3,159,133,684**

Hasan Muhamed Hasen
Chairman Board of Directors

Khader Ahmed Abdi
CEO

SHABELLE BANK S.C.
STATEMENT OF CHANGE IN EQUITY
AS AT 30 JUNE 2023

Currency:Ethiopian Birr

	PAID UP CAPITAL	GENERAL RESERVE	DONATED EQUITY	REVALUATION RESERVE	RETAINED EARNING	TOTAL
Balance as at 01 July 2021	**511,285,000**	**10,000,000**	**3,918,681**	**25,936,000**	**7,207,064**	**558,346,744**
Additional Grant	4,655,000	-		-	-	**4,655,000**
Prior Period Adjustment	-	-		-		-
Profit for the year	-	-	-	-	22,956,977	**22,956,977**
Transferred to retained earning(over prc	-	-	-	-	-	-
Adjustment to reversing Account	-	-	-	-	-	-
Balance as at 30 June 2022	**515,940,000**	**10,000,000**	**3,918,681**	**25,936,000**	**30,164,040**	**585,958,721**
Additional Investment	78,990,000	-	-		(20,962,870)	
Prior Period Adjustment	-	-	-	-	(726,028)	(726,028)
Profit for the year	-	-	-	-	26,087,236	26,087,236
Transferred to Paid Up Capital	-	-	-	-		-
Transferred to legal Reserve	-	4,754,681	-	-	(4,754,681)	-
Transferred from legal Reserve	-	-	-	-		-
Balance as at 30 June 2023	**594,930,000**	**14,754,681**	**3,918,681**	**25,936,000**	**29,807,698**	**669,347,059**

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Certified Audit Firm

Hasan Muhamed Hasen
Chairman Board of Directors

Khader Ahmed Abdi
CEO

SHABELLE BANK S.C.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2023

Currency:Ethiopian Birr

	Notes	30-Jun-23	30-Jun-22
Cash flows from operating activities			
Cash flows from operating activities	**30**	280,163,431	372,818,197
Adjustment		22,406,851	94,217,626
Net cash (outflow)/inflow from operating activities		302,570,282	467,035,823
Cash flows from investing activities			
Purchase of property, plant and equipment	**20**	(164,120,343)	(143,007,650)
Purchase of intangible assets		(17,978,366)	
Purchases of investment securities	**17**	(71,781,968)	(20,414,000)
Net cash (outflow)/inflow from investing activities		(253,880,677)	(163,421,650)
Cash flows from financing activities			
Issuance of shares		78,990,000	4,655,000
Net cash (outflow)/inflow from financing activities		78,990,000	4,655,000
Net increase/(decrease) in cash and cash equivalents		127,679,605	308,269,174
Cash and cash equivalents at the beginning of the year		725,819,584	417,550,410
Cash and cash equivalents at the end of the year		**853,499,189**	**725,819,584**

Ethiopia
Surafel Akalu
Certified Audit Firm

Hasan Muhamed Hasen
Chairman Board of Directors

Khader Ahmed Abdi
CEO

1 General Information

Shabele Bank SC. (previously Somail Mciro Finance SC.) is a Share Company established on January 31, 2019 with a purpose to engage in financial services sector business. On 30 December 2021, meeting the regulator requirements of the National Bank of Ethiopia, the company is registered, and has started operating by the name Shabelle Bank with a license number LBB/TM/025/2021 as an interest free bank.

Its Business address is:
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P.O.Box: 762
Jigjiga, Somalia Regional State
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1.1 Statement of Compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company is principally engaged in the provision of diverse range of financial products and services to low income and poor target clients.

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 period ended 30 June 2023 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by national regulations are 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 preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The management believes that the underlying assumptions are appropriate and that the Company's financial statements therefore present the financial position and its results fairly.

The financial statements have been prepared in accordance with the going-concern principle under the historical cost concept and fair value as laid outin the following sections.

2.2.1 Going Concern

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

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2.2.2 Changes in accounting policies and disclosures

New Standards, Amendments, Interpretations Issued but not yet Effective

A number of amendments to standards and interpretations are effective for annual periods beginning after 01 July 2021, and have

New and Amendments to Standards	Effective for Annual Periods Beginning On or After
IFRS 17 Insurance Contracts	After 1 January 2023
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	After 1 January 2023
Deffred tax related to assets and liabilities arising from a single transaction (Amendmnets to IAS 12)	After 1 January 2023
Reference to the Conceptual Framework (Amendments to IFRS 3)	After 1 January 2022
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	After 1 January 2022
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	After 1 January 2022
Annual Improvements to IFRS Standards 2018–2020 (Amendmnets to IFRS 1, IFRS 9, IFRS 16 IAS 41)	After 1 January 2022

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.The adoption is not expected to have any material impact on the company's financial statements.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Deffred tax related to assets and liabilities arising from a single transaction (Amendmnets to IAS 12)

The amendmnet require an entity to recognize deferred tax on certain transactions (eg lease and decomissioning liablities) that give raies to equal amounts of taxable and deducatible temporary differences on initial recognition.The amendemnt clarify that the initial regognition exemption set out in IAS 12 income taxes does not apply and entities are requried to regognize deferred tax on these transactions. The aim of the amendments is to reduce divesrity in the reporting of deferred tax on ;eases and decommissioning obligation.

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Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Annual Improvements to IFRS Standards 2018–2020

Makes amendments to the following standards:

IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

Accounting Policies, Changes in Accounting Estimates and Errors

IAS 8 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. When an IFRS Standard or IFRS Interpretation specifically applies to a transaction, other event or condition, an entity must apply that Standard. Changes in an accounting policy are applied retrospectively unless this is impracticable or unless another IFRS Standard sets specific transitional provisions.

Changes in Accounting Policies and Disclosures

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in:

-The period of the change, if the change affects that period only; or

-The period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, available reliable information. Unless it is impracticable to determine the effects of the error, an entity corrects material prior period errors retrospectively by restating the comparative amounts for the prior period(s) presented in which the error occurred.

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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 Company operates ('the functional currency'). The functional currency and presentation currency of the Company is the Ethiopian Birr (Birr).

b) Transactions and Balances

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

2.4 Recognition of Income and Expenses

The Company, earns income from interest on loans given for domestic trade and services, building and construction, manufacturing, agriculture, personal loans etc. The interest income, which is under IFRS 9 is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

a) Purchased or Originated Credit Impaired financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

b) Financial assets that are not Purchased or Originated Credit Impaired but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calcualted by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision)

In addition, the bank earns a fees and commission income, investment income and other income. These incomes are under the scope of IFRS 15. These incomes are recognized at a point in time when the bank is entitled for the transfer of services.

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

Other fees and commission expenses relates mainly to transaction and service fees are expensed as the services are received.

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

2.5 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.

2.5.1 Financial Assets

Recognition and Derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and Initial Measurement of Financial Assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

In the periods presented the bank have financial assets categorized as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loan receivables which is presented as a separate line item.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified into two categories:

a) Financial Assets at Amortized Cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment.Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar income in income statement. The losses arising from impairment are recognised in income statement in loan impairment charge.

The Company's cash and cash equivalents, loans and receivables that comprise of Agriculture loans, construction loans, Trade loans,Service Loans, Consumer loans, Asset Loan ,Staff loans and Other Loan and bonds.

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

b)Financial Assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

The category also contains an equity investment. The Company accounts for the investment at FVTPL and did not make the irrevocable election to account for the any equity investment at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of this requirement included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since
- financial instruments that have deteriorated significantly in credit quality since initial

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.
'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Refer to Note 4 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The bank measures other financial assets such as staff and sundary debtors at amortized cost method as pre the principles prescribed under IFRS 9. The other financial assets shall be presented in the statement of financial position net of any associated allowance for impairment. Allowance for impairment shall be recognized based on a simplified approach where by a provision matrix will be applied on long outstanding receivable amounts

Derecognition of Financial Assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the 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 is recognised in profit or loss.

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

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

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

2.5.2 Financial Liabilities

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

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the bank designated a financial liability at fair value through profit or loss. All of the bank's financial liabilities are measured at amortized cost. The bank measure other financial liabilities at amortized cost that includes such items as, taxes payable, pension payable, accruals,
unearned revenue and retention payable

Derecognition Financial Liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

2.6. Impairment Policy

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

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

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

— debt investment securities that are determined to have low credit risk at the reporting date; and

— other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.
Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments. 12—month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12—month ECL is recognised are referred to as 'Stage 1 financial instruments'.Life—time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

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

If 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 an assessment is made of 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.

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
— significant financial difficulty of the borrower or issuer;
— a breach of contract such as a default or past due event;
— the restructuring of a loan or advance by the Bank on terms that the Bank would not consider
— otherwise;
— it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
— the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

— The market's assessment of creditworthiness as reflected in the bond yields.
— The rating agencies' assessments of creditworthiness.
— The country's ability to access the capital markets for new debt issuance.
— The probability of debt being restructured, resulting in holders suffering losses through
— voluntary or mandatory debt forgiveness.

— The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

— Loss allowances for ECL are presented in the statement of financial position as follows:
— financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

— loan commitments and financial guarantee contracts: generally, as a provision;

— where a financial instrument includes both a drawn and an undrawn component, and the 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

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

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

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

If the 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 is 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.

If 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. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

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Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.7. Cash and Cash Equivalents

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

2.8. Property, Plant and Equipment

2.8.1 Cost

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

Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2.8.2 Depreciation

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

Asset Class	Useful life (years)	Depreciation Rate
Building and Asset Improvement	50	2%
Motor Vehicle	10	10%
Office Equipment	5	20%
Furniture and Fittings	5	20%
Computer equipment and accessories	5	20%

2.9. Intangible Asset

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 capitalized development costs, are not capitalized and the related expenditure is reflected in income statement in the period in which the expenditure is incurred.

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The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over 10 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 income statement.

2.10. Other Assets

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

(a) Prepayment

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

(b) Other receivables

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Bank's other receivables are receivables from debtors.

2.11. Leased Assets

Most of the Bank's leases are operating leases which do not transfer substantially all the risks and rewards of

2.12. Employee benefits

The Company's only post-employment schemes is defined contribution pension plans.

(a) Short-term Employment benefits (Wages, salaries,bonus and allowances

Short-term employee benefits such as Wages, salaries, bonuses, other contributions, paid annual leave and sick

(b) Post-Employment Benefit(Defined Contribution plan-Pension)

The Company operates one defined contribution plan;

Pension scheme in line with the provisions of Ethiopian pension of private organization employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Company respectively;

Once the contributions have been paid, the Company retains no legal or constructive obligation to pay further contributions if the Fund does not hold enough assets to finance benefits accruing under the retirement benefit plan. The Company's obligations are recognized in the profit and loss account.

Other long-term benefits such as serverance expenses are recognizeed using the projected unit credit model. The assumptions are disclosed under note no. 26.1. Termination benefits are recognized when incurred.

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2.14. Fair Value Measurement

The Company measures financial instruments classified as available-for-sale at fair value 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, summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions note 4.6.1.
- Quantitative disclosures of fair value measurement hierarchy note 4.6.2.
- Financial instruments (including those carried at amortized cost) note 4.6.2.

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

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

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

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

The Company'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 Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.15. Provisions

Provisions are recognized when the Company 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.

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

2.16. 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. The excess of the issue price over the par value is recorded in the share premium reserve.

3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Company's financial statements requires the 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.

3.1 Estimates and Assumptions

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 Company 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 Company. Such changes are reflected in the assumptions when they occur.

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 using inputs from unobservable sources. 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.

Fair Value Estimation (Judgement)

The carrying value less impairment provision of trade receivables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

4 Financial Risk Management

4.1 Introduction

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

4.2 Financial Instruments by Category

The Company's financial assets are classified into the following categories: at amortized cost, at fair value through P&L and at FV through OCI and the financial liabilities are classified into other liabilities at amortized cost. Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

The Institution's classification of its financial assets is summarised in the table below:

Currency:Ethiopian Birr

30-Jun-23	Notes	At fair value through profit or loss	At amortized cost	TOTAL
Cash and cash equivalents	15	-	853,499,189	853,499,204
Loans and advances to customers	16	-	1,877,176,988	1,877,177,004
Investment securities:	17	-	-	
– Financial assets measured at FVPL		83,749,814	-	83,749,814
– Financial assets measured at amortized □ cost		-	-	-
Other receivables	18	-	494,372,461	494,372,479
Total Financial Assets		**83,749,814**	**3,225,048,638**	**3,308,798,502**

30-Jun-22	NOTES	At fair value through profit or loss	At amortized cost	TOTAL
Cash and cash equivalents	14	-	725,819,584	725,819,598
Loans and advances to customers	16	-	1,888,811,625	1,888,811,641
Investment securities:	17	-	-	17
– Financial assets measured at FVPL		11,967,846	-	11,967,846
– Financial assets measured at amortized □ cost		-	-	-
Other receivables	18	-	211,398,435	211,398,453
Total Financial Assets		**11,967,846**	**2,826,029,643**	**2,837,997,555**

4.3 Credit Risk

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

4.3.1 Management of Credit Risk

In measuring credit risk of loans and receivables to various counterparties, the bank considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counter party/obligor and its likely future developments, credit history of the counterparty/obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out. The credit exposure of the bank comprises wholesale and retail loans and receivables which are developed to reflect the needs of our customers. The bank's policy is to lend principally on the basis of our customer's repayment capacity through quantitative and qualitative evaluation. However, the bank ensure that its loans are backed by collateral to reflect the risk of the obligors and the nature of the facility. In the estimation of credit risk, the bank estimate the following parameters:

a. Probability of Default (PD)

This is the probability that an obligor or counterparty will default over a given period, usually one year. This is calculated on portfolio by portfolio basis or collectively depending on availability of historical data. Shabelle bank used a forward looking probability of default that incorporates past loss events, macro-economic indicaters such as GDP and unemployment rates and internal credit ratings. Considering the stages in which the loan portfolio is found, the probability of default is adjusted to estimate 12-month and life time probability of defaults.

b Loss Given Default (LGD)

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). The bank's methods for estimating LGD includes both quantitative and qualitative factors. In assessing, the loss given default the bank considered the current fair values of the pledged collaterals collectively to determine the actual percentage of the LGD. In our analysis, the LGD significantly explains the amount of expected credit loss of the bank.

C Exposure at Default (EAD)

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

4.3.2 Credit Quality Analysis

Currency:Ethiopian Birr

June 30 2023	Stage 1: Performing	Stage 2: Significant Increase in Credit Risk	Stage 3: Credit Impaired	Total
Loans and Advances	976,324,237	20,524,700	880,328,052	1,877,176,988
Total	**976,324,237**	**20,524,700**	**880,328,052**	**1,877,176,988**

June 30 2022	Stage 1: Performing	Stage 2: Significant Increase in Credit Risk	Stage 3: Credit Impaired	Total
Loans and Advances	982,375,440	20,651,911	885,784,275	1,888,811,625
Total	**982,375,440**	**20,651,911**	**885,784,275**	**1,888,811,625**

4.3.3 Statement of Prudential Adjustments

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

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

	30-Jun-23	30-Jun-22
Total impairment based on IFRS	14,622,818	3,532,509
Total impairment based on NBE Directives	13,825,437	3,196,933
Over provsion under IFRS	**797,381**	**335,576**

4.3.4 Nature of Security in Respect of Loans and Receivables.

June 30 2023	Secured against real estate	Cash	GROUP	Vehicles	Others	TOTAL
Loans and advances	137,897,805	1,517,579,205	4,156,539	45,392,583	172,150,856	1,877,176,988
Total	137,897,805	1,517,579,205	4,156,539	45,392,583	172,150,856	1,877,176,988

June 30 2022	Secured against real estate	Cash	GROUP	Vehicles	Others	TOTAL
Loans and advances	138,752,488	1,526,985,075	4,182,301	45,673,924	173,217,837	1,888,811,625
Total	**138,752,488**	**1,526,985,075**	**4,182,301**	**45,673,924**	**173,217,837**	**1,888,811,625**

4.3.5 Collateral Held from the Customers shall be Categorized in to:

Currency:Ethiopian Birr

Particular	**30-Jun-23**	**30-Jun-22**
Cash	319,504,775	319,504,775
Building	190,905,875	190,905,875
Vehicle	26,595,634	26,595,634
Group	1,541,276	1,541,276
Others	4,993,879	4,993,879

4.4 Market Risk

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

Management of Market Risk

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

4.4.1 Interest Rate Risk

Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Institution's interest margin or the value of its net worth.

	Interest variablility	**30-Jun-23**	**30-Jun-22**
Asset			
Cash and balances with banks	Fixed	853,499,189	725,819,584
Loans and advances to customers	Fixed	1,877,176,988	1,888,811,625
Investment securities	Fixed	83,749,814	11,967,846
Total Interest Bearing Financial Assets		**2,814,425,991**	**2,626,599,055**
		30-Jun-21	**30-Jun-20**
Liabilities			
Deposits from customers	Fixed	801,613,728	500,535,068
Total Interest Bearing Financial Liabilities		**801,613,728**	**500,535,068**
		2,012,812,264	**2,126,063,987**
Net Interest Sensitivity Gap		**801,613,728**	**500,535,068**

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5 Mark-up Income

	30-Jun-23	30-Jun-22
Income from Mark-UP	192,911,581	52,838,101
	-	-
Total Interest Income	**192,911,581**	**52,838,101**

6 Mark-up Expense

	30-Jun-23	30-Jun-22
Mark up on Saving	-	-
Total Interest Expense	**-**	**-**

7 Fees and Commision Income

	30-Jun-23	30-Jun-22
Commission Income	56,535,352	41,308,375
Hello Cash Earning	216,412,062	208,241,474
Membership Income	2,540	5,290
Total Fees and Commision Income	**272,949,954**	**249,555,139**

8 Other Operating Income

	30-Jun-23	30-Jun-22
Rent Income	16,495,121	11,129,051
Provision Reclaim	34,821,826	7,384,302
Cable charges	-	140
Total Other Operating Income	**51,316,948**	**18,513,493**

9 Investment Income

	30-Jun-23	30-Jun-22
Investment Income	-	-
Total Investment Income	**-**	**-**

10 Loan Impairment Charge

	30-Jun-23	30-Jun-22
ECL excess expense from regulatory provision	797,381	335,576
Impairment Loss on credit Portifolio	13,825,437	3,196,933
Total Loan Impairment Charge	**14,622,818**	**3,532,509**

11 Personnel Expense

	30-Jun-23	30-Jun-22
Salaries and wages	91,471,518	53,047,923
Staff allowances	83,361,967	57,790,509
Pension costs – Defined contribution plan	9,716,203	8,976,139
Accrued Leave Expense	1,709,843	4,459,581
Accrued Severance Expense	1,157,985	672,068
Total Personnel Expense	**187,417,515**	**124,946,220**

Currency:Ethiopian Birr

Currency:Ethiopian Birr

12 Fees and Commision Expense

	30-Jun-23	30-Jun-22
Hello Cash Expense	88,839,225	73,907,260
Contribution Expense	2,400,000	-
Consultancy Expense	-	2,436,403
Total depreciation expense	**91,239,225**	**76,343,663**

13 Depreciation Expense

	30-Jun-23	30-Jun-22
Depreciation Expense	17,150,564	4,525,039
Total depreciation expense	**17,150,564**	**4,525,039**

14 Other Operating Expense

	30-Jun-23	30-Jun-22
Utilities	58,860,911	663,761
Telephone and Postage	-	37,096,398
Repair and Maintainance	13,067,082	5,514,033
Fuel and Lubricants	10,516,665	2,881,103
Education and Training Expense	2,360,066	-
Office Supplies and Stationery	12,194,535	5,017,817
Audit & consultant fee	5,649,688	271,200
Penality	8,105	3,914
Travel and Perdiem	31,427,046	11,216,821
Rent Expense	16,347,167	6,058,632
Registration and Legal Expense	1,500	20,000
Entertainment	6,864,182	3,380,229
Financial Charges	-	-
Miscellaneous Expense	987,703	375,971
Advertising	10,646,447	5,228,724
Establishment Cost	-	10,921,749
Taxes, Licenses and Duties	1,390,898	655,394
Uniform	91,210	-
Amortization	1,452,826	-
Insurance Expense	1,695,231	551,175
	173,561,263	**89,856,920**

15 Other Comprehensive Income

Revaluation Surplus	8,927,044	2,429,846
Total Other Comprehensive Income	**8,927,044**	**2,429,846**

16 Income and deferred tax

16.1 Current income tax

Current taxation based on taxable profit (note 10.2)	14,347,681	2,086,466
Deferred income tax charge(credit) to profit or loss (note 10.4)	(998,890)	(1,640,168)
Total charge to profit or loss		
Tax charge (credit) on other comprehensive income	2,678,113	728,954
Total tax in statement of comprehensive income	**16,026,905**	**1,175,252**

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Currency:Ethiopian Birr

16 Income and deferred Tax (continued)

16.2 Current Taxation Based on Taxable Profit

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

Currency:Ethiopian Birr

	30 June 2023	30 June 2022
Profit (Loss) before tax	33,187,097	21,702,382
Non-deductible expenses		
Inventory write down to net realizable value	-	-
Depreciation per accounting policy	17,150,564	4,525,039
Entertainement Expense	6,864,182	3,380,229
Retirement benefit expense	1,157,985	672,068
Donation	-	-
Receivable impairment allowance	13,825,437	3,196,933
Accrued leave expense	1,709,843	4,459,581
Employee benefit tax	-	-
Penalty	8,105	3,914
	73,903,213	**37,940,146**
Less:		
Depreciation as Per Tax Law	17,150,564	4,525,039
Revaluation surplus	8,927,044	2,429,846
	26,077,608	
Taxable income (Loss)	47,825,605	6,954,885
Current Tax Expense (30%)	**14,347,681**	**2,086,466**

16.3 Current income tax liability

	30 June 2023	30 June 2022
Balance at the beginning of the year	2,086,466	-
Charge for the year	14,347,681	2,086,466
Witholding Tax	-	-
Payment during the year		
Balance at the end of the year	**16,434,147**	**2,086,466**

16.4 Deferred income tax

	30 June 2023	30 June 2022
The analysis of deferred tax liabilities (assets) is as follows:		
Opening balance	(911,214)	-
Adjustments		-
Add: Current deferred tax liability (asset)	1,679,223	(911,214)
Ending balance	768,010	(911,214)

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Deferred taxation is calculated on all temporary differences using the enacted principal tax rate of 30%. The temporary difference is a result of difference in tax base which arised from revaluation of PPEs and difference in tax rates of depreciation of property plant and equipment and difference in accounting for pre-operational expenditure and post-employment benefit obligation for financial reporting and tax purpose.

12.4.1 Deferred Tax Details

Currency:Ethiopian Birr

	AT 1 July 2022	Credit/ (charge) to profit or loss	Credit/ (charge) to equity	30 June 2023
Deferred income tax assets/(liabilities):				
Property Plant and Equipment	-	-	-	-
Loans and Advances	(100,673)	(138,541)	-	(239,214)
Inventory	-	-	-	-
Investment in Securities	728,954	2,678,113		3,407,067
Accrued Leave Payable	(1,337,874)	(512,953)	-	(1,850,827)
Accrued Severance Payable	(201,620)	(347,395)	-	(549,016)
Total deferred tax assets/(liabilities)	**(911,214)**	**1,679,223**	**-**	**768,010**

	AT 1 July 2022	Credit/ (charge) to profit or loss	Credit/ (charge) to equity	30 June 2023
Deferred income tax assets/(liabilities):				
Property Plant and Equipment	-	-	-	-
Loans and Advances	-	(100,673)	-	(100,673)
Inventory	-	-	-	-
Investment in Securities	-	728,954	-	728,954
Accrued Leave Payable	-	(1,337,874)	-	(1,337,874)
Accrued Severance Payable	-	(201,620)	-	(201,620)
	-	**(911,214)**	**-**	**(911,214)**

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15 Cash and Cash Equivalent

	30-Jun-23	30-Jun-22
Cash on Hand	219,040,600	143,855,702
Cash at Bank	634,458,589	581,963,881
Total Cash and Cash Equivalent	**853,499,189**	**725,819,584**

16 Loans and Advances to customers

	30-Jun-23	30-Jun-22
Loan Receivable	1,904,459,945	1,904,495,201
Imapriment on Loan Loss	(27,282,957)	(15,683,576)
	1,877,176,988	**1,888,811,625**

16.2 Impairment Allowance on loan

	30-Jun-23	30-Jun-22
At 1 July	15,683,576	-
Charge for the year	11,599,381	15,683,576
At 30 June	**27,282,957**	**15,683,576**

Investment in Securities

	30-Jun-23	30-Jun-22
At far value through profit or loss		
Equity investment	83,749,814	11,967,846
	83,749,814	**11,967,846**
Financial assets measured at amortized cost		
	-	-
	83,749,814.36	**11,967,846.26**

17.1 The Company holds equity investments in the following entities;

	shares	Par Value	Total Value	% of Holding
Kobac S.C investment	8,017.00	1000	8,017,000	10%
ETHSWITCH SHARE	1,035.00	1000	1,035,000	1%

The fair value of the unquoted equity securities other than share in Ethio-Swith is carried at cost because fairvalue cannot be reliably estimated as there are no active market for these financial instruments nor data on their earning streams to make indirect valuations; they have therefore been disclosed at cost less impairment (if any).

Currency:Ethiopian Birr

18 Trade and Other Receivable

	30-Jun-23	30-Jun-22
Prepayments	64,500,383	27,985,222
Trade Receivable	61,208,221	119,294,032
Advance to NBE	50,211,466	-
Bid Security	-	100,000
Mark up Receivable	120,010,738	4,057,855
Other Receivable	82,835,868	289,398
Staff Advances	77,797,367	59,671,928
Intercompany Receivable	37,808,419	-
Sub Total	**494,372,461**	**211,398,435**
Less: Impairment for credit loss	-	-
	494,372,461	**211,398,435**
Current portion	144,044,088	125,523,631
Non-Current portion	350,328,373	339,669,997
	494,372,461	**465,193,629**

19 Inventory

	30-Jun-23	30-Jun-22
Inventory	23,939,769	19,581,688
Less: Provision for stock impairment loss	-	-
Total Inventory	**23,939,769**	**19,581,688**

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20 Property, Plant and Equipment

	ROU Land	Building	Motor Vehicle	Office Furniture	Computer and Accessories	Asset Improvement	Office Equipment	Construction In progress	Total
Cost									
As at 1 July 2021	25,936,000	199,350,250	9,571,352	6,037,470	-	-	16,612,002	203,550	257,710,625
Addition	-	1,822,538	19,173,144	8,071,069	5,057,798	-	1,675,292	24,326,108	60,125,949
Adjustment	-	-	-	(2,060,389)	2,060,389	-			-
Disposal	-	-	-	-	(3,609,329)	-	-	-	(3,609,329)
As at 30 June 2022	**25,936,000**	**201,172,788**	**28,744,496**	**12,048,151**	**3,508,858**	**-**	**18,287,295**	**24,529,658**	**314,227,245**
Accumulated Depreciation									
As at 1 July 2021	-	-	4,431,345	5,651,957	-		1,677,858	-	11,761,159
Charge for the year	-	-	2,047,089	446,053	340,361	-	1,687,405	-	4,520,908
Adjustments	-	-	-	-	-	-	-	-	-
As at 30 June 2022	**-**	**-**	**6,478,434**	**6,098,010**	**340,361**	**-**	**3,365,263**	**-**	**16,282,068**
Book Value									
As at 30 June 2022	**25,936,000**	**201,172,788**	**22,266,063**	**5,950,141**	**3,168,497**	**-**	**14,922,031**	**24,529,658**	**297,945,178**
Cost									
As at 1 July 2022	25,936,000	201,172,788	22,266,063	5,950,141	3,168,497		14,922,031	24,529,658	297,945,178
Addition	-	38,903,393	21,611,767	27,209,144	37,439,804	3,380,029	25,019,859		153,563,997
Adjustment	-							(10,556,347)	(10,556,347)
Transfer to right to use	-	-	-	-	-	-	-	-	-
As at 30 June 2023	**25,936,000**	**240,076,181**	**43,877,830**	**33,159,285**	**40,608,301**	**3,380,029**	**39,941,890**	**13,973,311**	**440,952,827**
Accumulated Depreciation									
As at 1 July 2022	-	-	6,478,434	6,098,010	340,361	-	3,365,263	-	16,282,068
Charge for the year	-	4,801,524	6,286,836	1,280,475	2,751,139	-	2,030,591	-	17,150,564
Adjustments	-	-	-	-	-	-	-	-	-
As at 30 June 2023	**-**	**4,801,524**	**12,765,270**	**7,378,485**	**3,091,500**	**-**	**5,395,854**	**-**	**33,432,632**
Book Value									
As at 30 June 2023	**25,936,000**	**235,274,657**	**31,112,560**	**25,780,801**	**37,516,801**	**3,380,029**	**34,546,036**	**13,973,311**	**407,520,195**

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21	Right of Use Assets	30-Jun-23	30-Jun-22
	Minimum Lease Cost per M2	2,000	2,000
	Total land in M2	12,968	12,968
	Total Amount	**25,936,000**	**25,936,000**
	Cost	**25,936,000**	**25,936,000**
	Less: Amortization		
	Opening Balance		
	Current Year	-	-
		25,936,000	**25,936,000**

Right of use land is a land obtained from Jigjiga City Governemnt Administration on lease bases. The total lease value as per the minimum lease cost in the area is Birr 25,936,000. the lease cost of birr 2,000/m2 is the established fair value rather than the actual lease cost.

22	Deposits from Customers	30-Jun-23	30-Jun-22
	Voluntary Saving	529,270,932	207,750,950
	Compulsory saving	272,342,795	292,784,117
		801,613,728	**500,535,068**
	Total Deposit		
	Current portion	104,209,785	65,069,559
	Non-Current portion	697,403,943	435,465,509
		801,613,728	**1,764,446,390**

23	Trade and Other Payables		
	Accrued Payables	47,214,151	32,787,350
	Withholding tax Payable	127,517	1,477,491
	Income Tax Payable	3,018,300	882,001
	Individual Payable	2,917,787	29,621,735
	Contract Liability	2,198,664,316	1,421,037,519
	Trade Creditors	-	500,226,880
	Intercompany Payable	1,520,331	79,941,151
	Other Payable	10,768,463	358,867
	Accrued Leave Payable	6,169,424	4,459,581
	Total Other Liabilities	**2,270,400,289**	**2,070,792,576**

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24 Retirement Benefit Obligation

Severance Benefit Plan

The severance benefit plan is an unfunded defined benefit scheme. The Company does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallize.

The severance benefits are based on the statutory severance benefit as set out in Labour Proclamation No. 377/2003, as amended by the Labour (Amendment) Proclamation No. 1156/2019. Employees who have served the Company for 5 years and above and are below the retirement age (i.e. has not met the requirement to access the pension fund) are entitled for the benefit. The final pay-out is determined by reference to final monthly salary and number of years in service computed as one month salary of the first year in employment plus one-third of monthly salary for subsequent years to a maximum of twelve months salary.

Currency:Ethiopian Birr

24.1 Liability Recognized in the Financial Position

	30-Jun-23	30-Jun-22
Severance Pay	1,830,052	672,068
	1,830,052	**672,068**
Income Statement Charge Included in Personnel Expenses:		
– Severance benefit plan	1,157,985	672,068
Total Defined Benefit Expenses	**1,157,985**	**672,068**

24.2 The Principal Assumptions used in Determining Defined Benefit Obligations

Discount rate (p.a)	21%	21%
Long term salary increases (p.a)	13%	13%

i. Discount Rate

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. IAS 19 does not provide guidance for setting the discount rate in a country with limited government bonds or instruments. The discount rate is the rate to equate the real rate after being adjusted for inflation rate to be equal to the minimum deposit rate of 7%.

ii. Long Term Salary Increases

The average salary escalation rates of the past few years is assumed to prevail in the subsequent years in determining severance pay for an accounting period. The company will annually review the validity of this assumption.

Currency:Ethiopian Birr

iii. Mortality Rate

Mortality is normally expressed as the probability of death within the next year for an individual of a specific age. Different mortality rates are thus set for each age group (higher rates for older people) and this set of rates is referred to as a mortality table.

	30-Jun-23	30-Jun-22
20-24	0.30%	0.30%
25-29	0.36%	0.36%
30-34	0.44%	0.44%
35-39	0.53%	0.53%
40-44	0.64%	0.64%
45-49	0.79%	0.79%
50-54	0.97%	0.97%
55 and above	> 1%	> 1%

iv. Withdrawals from service

The withdrawal rate selected was based on experience in other similar arrangements.

	30-Jun-23	30-Jun-22
20-24	6.00%	6.00%
25-29	4.50%	4.50%
30-34	2.90%	2.90%
35-39	2.00%	2.00%
40-44	1.60%	1.60%
45-49	1.20%	1.20%
50-54	1.20%	1.20%
55 and above	1.20%	1.20%

v. Il-health / Disability

	30-Jun-23	30-Jun-22
20-24	0.10%	0.10%
25-29	0.10%	0.10%
30-34	0.18%	0.18%
35-39	0.33%	0.33%
40-44	0.58%	0.58%
45-49	1.08%	1.08%
50-54	1.90%	1.90%
55 and above	1.90%	1.90%

24.3 Risk Exposure

Through its post-employment benefit schemes, the Company is exposed to a number of risks. The most significant of which are detailed below:

i. Liquidity Risk

The defined liabilities are unfunded and as a result, there is a risk of the Company not having the required cash flow to fund future defined benefit obligations as they fall due.

ii. Life Expectancy

Increases in life expectancy will result in an increase in the schemes' liabilities.

25 Paid Up Capital

As Per the Memorandum of Assositaion, the authorized capital of the company is Br. 594,930,000 divided into 59,493 shares of Birr 10,000 par value each. The Capital of the company registered to the following shareholders:

Name of shareholder	No. of shares	Par value	Paid amount
Somali Regional State	43,473	10,000	434,725,000
Ogaden Welfare Development Asociation Dermanforag	2,123	10,000	21,230,000
Dermanforage Production and Livestocks Trade	3,215	10,000	32,150,000
Reba and Sons Pic	2,187	10,000	21,870,000
Barwaqo Agricultural Cooperative	3,215	10,000	32,150,000
Horsed Livestock Traders Cooperative	2,123	10,000	21,230,000
Amel Construction PLC	2,187	10,000	21,870,000
Individual Shareholders	971	10,000	9,705,000
	59,493		**594,930,000**

26 Donated Equity

Donated equity is grant received from mostly from the Regional Government and other national and international organizations as a loanable fund. The covenants of the grant agreement indicate that the fund will remain the asset of Shebelle Bank once the initial grant objective is fulfilled. Accordingly, grants received as a loanable fund are treated as donated equity. Grants provided for the purchase of fixed asset were reclassified to deferred revenue to be recognized as income over the useful life of the underlying asset. Some grants which initially treated as donated equity, but received for the purchase of fixed asset that fully depreciated as of the reporting date are directly reclassified to retained earnings. The sources of the grants are presented here under:

Currency:Ethiopian Birr

	30-Jun-23	30-Jun-22
Donated Capital	3,918,681	3,918,681
	3,918,681	**3,918,681**

27 Legal Reserve

Total legal reserve as at 30 June 2022 and 2021 is as follows:

	30-Jun-23	30-Jun-22
General Reserve	10,000,000	10,000,000
Transfer to Paid Up Capital	-	-
Transfer from profit or loss (new provision)	4,754,681	-
At the end of the year	**14,754,681**	**10,000,000**

General Reserve is a reserve required by the 2021 commercial code of Ethiopia Article no. 434. The institution is required to by law to transfer 5% of its profits to Legal reserve until such reserve balance equates the institution's equity. During the year as the institution is restructured its legal capital is transferred to paid up capital and a new year provision is added to it.

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28 Retained Earning

Currency:Ethiopian Birr

Total retained earning is as follows:

	30-Jun-23	30-Jun-22
Retained Earnings	30,164,040	7,207,064
Profit for the year	26,087,236	22,956,977
Transfer to Equity	(20,962,870)	(0)
Transfer to legal reserve	(4,754,681)	-
Prior period adjustment (32.1)	(726,028)	-
At the end of the year	**29,807,697**	**30,164,040**
The balance		

29 Revaluation Reserve

The Revaluation reserve is used to record the increments and decrements in net assets casued by first-time IFRS adoption remeasurements. This is done in compliance with AABE circular no. AABE 208/2020. In the letter, AABE recommends that a separate equity account shall be used for such adjustment changes and no dividend shall be paid out of it.

	30-Jun-23	30-Jun-22
At the begning of the year	25,936,000	-
Movement during the year	-	25,936,000
At the end of the year	**25,936,000**	**25,936,000**

Currency:Ethiopian Birr

30 Note to Statement of Cash Flow

a) Cash used in operations	30-Jun-23	30-Jun-22
Reconciliation of profit before income tax to cash from operations		
Profit before tax	33,187,097	21,702,382
Adjustments for non-cash items:		
Depreciation of property and equipment	17,150,564	4,525,039
Amortization	1,452,826	-
Loan impairment Charge	13,825,437	3,196,933
Fair Value Adjustment for investment in share	-	-
Provision on other receivables reversal		-
Changes in operating assets and liabilities:		
Decrease/ (Increase) in loans and advances	35,256	(10,801,451)
Decrease/ (Increase) in other Receivable	(282,974,027)	(20,387,476)
Decrease/ (Increase) in Inventory	(4,358,081)	(19,312,412)
Increase/ (Decrease) in deposits	301,078,660	
Decrease/ (Increase) in Defined benefit obligation	1,157,985	
-Increase/ (Decrease) in other liabilities	199,607,713	393,895,182
	280,163,431	**372,818,197**

31 Contingent Liabilities

Claims and Litigation

The Company is subjected to litigation arising in the normal course of business. The Management is of the opinion that the pending litigation as at the reporting date will not have a material effect on the financial position or profits of the Company. At the year end the Company is not involved in any cases. Significantly affecting the financial statement.

32 Related Party Transactions

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

Key Management Compensation

Key management has been determined to be the members of Executive Management of the Company. The compensation paid or payable to key management for is shown.

	30-Jun-23	30-Jun-22
Salaries and other short-term employee benefits	2,237,496	302,774
Pension Defined Contribution Plan	221,045	31,908
Severance benefit plan	861,779	748,825
	3,320,320	**1,083,507**

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33 First-time adoption of IFRS for the Company

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

For periods up to and including the year ended 30 June 2023, the Company prepared its financial statements in accordance with its accounting framework. Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2023, together with the comparative period data as at and for the year ended 30 June 2022, as described in the summary of significant accounting policies.

In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 July 2021, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its financial statements prepared under the previous framework, including the statement of financial position as at 30 June 2022 and the financial statements as at and for the year ended 30 June 2023.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Company's previous accounting framework and the Commercial Code of Ethiopia 2013. An explanation of how the transition from previous framework to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Company are summarized below:

Optional exemptions applied

The Company applied the following exemptions on its transition to IFRS

Leases: The Company is required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 1 July 2021. Any contracts that exist would result in a classification based on the facts and circumstances that exist at transition date.

Fair value measurement of financial instruments at initial recognition: The application of "day 1" gain or loss recognition in IFRS 9 for financial instruments recorded at fair value may be burdensome. As a result, an exemption is offered by IFRS 1 for financial instruments carried at fair value for which there is no active market.

The Company has decided to apply the exemption and would apply the "day 1" gain or loss recognition requirements in IFRS 9 prospectively to transactions entered into after the transition date.

Exceptions applied

The Company applied the following mandatory exception from retrospective application:

Estimates exception

Estimates under IFRS at 1 July 2021 are consistent with estimates made for the same date under its previous accounting framework, unless there is evidence that those estimates were in error.

The estimates used by management in preparing the transition date statement of financial position are consistent with those used under previous framework for the same date.

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Reconcilation of Equity As At 30 June 2022 *Currency:Ethiopian Birr*

33 a Reconciliation of Statement of total comprehensive income for the year ended 30 June 2022

	Previous framework	Reclassification	Remeasurement	IFRS
Revenue	301,167,842	(301,167,842)	-	-
Mark-up Income	-	52,838,101	-	52,838,101
Fee and Commission Income	-	249,555,141	-	249,555,141
Other Operating Income	-	18,513,493	-	18,513,493
	301,167,842	**19,738,894**	-	**320,906,736**
Expenses				-
Cost of Sales	(73,907,260)	73,907,260		-
	227,260,582			**320,906,736**
Other income	19,738,894	(19,738,894)		-
	246,999,476			**320,906,736**
Salary and Benefits Expense	(116,120,888)	116,120,888		-
Administrative Expense	(100,512,047)	100,512,047		-
Loan loss provision	(3,196,933)	3,196,933		-
Loan Impairment Charge		(3,196,933)	(335,576)	(3,532,509)
Personnel Expense		(116,120,888)	(8,825,332)	(124,946,220)
Fee and Commission Expense		(73,907,260)	(2,436,403)	(76,343,663)
Depreciation Expense of Property, Plant and Equipment		(4,525,039)		(4,525,039)
Other Operating Expense		(95,987,007)	6,130,087	(89,856,920)
				-
Profit before	**27,169,608**	- **(19,738,894)**		**21,702,384**
Income tax			(446,298)	(446,298)
Profit for the year	**27,169,608**	-	-	**21,256,086**
Other comprehensive income	-	-	2,429,846	2,429,846
Income tax expense on OCI	-	-	(728,954)	(728,954)
Total	**27,169,608**	-	**(728,954)**	**22,956,979**

33b Reconciliation of equity as at 31 July 2022

	Previous framework	Reclassification	Remeasurement	IFRS
ASSETS				
Property Plant and Equipment	275,618,506	(3,609,329)	25,936,000	297,945,178
Investment	29,952,000	(17,984,154)	-	11,967,846
Inventory	19,581,688	-	-	19,581,688
Receivables and Prepayments	2,079,946,719	(1,870,827,471)	2,279,186	211,398,434
Cash and Bank Balance	725,819,584	-		725,819,584
Loans and advances to custom	-	1,888,811,625	-	1,888,811,625
Intangible Assets	-	3,609,329		3,609,329
Total assets	**3,130,918,497**	-	**28,215,186**	**3,159,133,684**

HABELLE BANK
OTES TO THE FINANCIAL STATEMENTS
OR THE YEAR ENDED 30 JUNE 2023

LIABILITIES

Payables and Accruals	2,564,323,653	(2,564,323,653)	-	-
Payables and Accruals Taxes l	2,359,492	(2,359,492)	-	-
Deposits from customers	-	500,535,068	-	500,535,068
Other Payables	-	2,066,148,078	4,644,498	2,070,792,576
Current tax payable	-	-	2,086,466	2,086,466
Differed tax liability	-	-	(911,214)	(911,214)
Retirement benefit obligations	-	-	672,068	672,068
Total liabilities	**2,566,683,146**	**-**	**6,491,818**	**2,573,174,963**

EQUITY

Registered Capital	515,940,000	-	-	515,940,000
General Reserve	10,000,000	-	-	10,000,000
Retained earnings	38,295,352	-	(8,131,312)	30,164,040
Donated Equity	-	-	3,918,681	3,918,681
Reserve for excess	-		25,936,000	25,936,000
	564,235,352	**-**	**21,723,369**	**585,958,721**
Total Equity and Liabilities	**3,130,918,498**		**28,215,187**	**3,159,133,684**

34 **Events After Reporting Period**

In the opinion of the Management, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Company as at 30 June 2023 and on the profit for the year ended on that date.


Shabelle BANK S.C
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