BOARD OF DIRECTORS REPORT

2022/23

June 30, 2023

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ZamZam
Bank

SUSTAINABLE SOURCE OF GROWTH
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2022

INSIGHT OF

ZamZam Bank's Journey

- 1st full fledged interest free bank in Ethiopia
- Currently the only Bank led by Female CEO in Ethiopia
- Registered Profit at 2nd year of establishment
- Won 4 international Awards
- Acquired strategically 3rd largest land for ZamZam Bank HQ
- The First Branch operated by all women in Ethiopia
- The First Sharia complaint full core banking solutions

Learn more at:

WWW.ZAMZAMBANK.COM

ዘምዘም ZamZam Bank

CONTENTS

CONTENTS

VISION

To be the Leading Shari'ah Compliant and All - Inclusive Bank in Africa by the Year 2030

MISSION

We are committed to demonstrate Shari'ah principles in harnessing sustainable financial resources, being a model of excellence through digitalization and competent workforce to realize our stakeholder's values

VALUES

Shari'ah Compliant
Inclusiveness
Service Excellence
Professionalism
Social Responsibility
Innovation
Integrity

MESSAGE OF THE **BOARD CHAIRPERSON**

ASSALAMU ALEYKUM WERAHMETUALLAHI WEBEREKATIHU

IN THE NAME OF ALLAH THE MOST COMPASSIONATE AND THE MOST MERCIFUL.

Honourable Shareholders,

All praise be to Allah! On behalf of the Board of Directors and myself, it is a great honor to welcome you to ZamZam Bank's 3rd Annual General Meeting Assembly. This reporting period is historical, as our bank registered the first of the many profits within short years of starting operation. It is with great honor that I express my sincere gratitude for your trust and confidence in achieving this success.
I am honored to present the annual report of ZamZam Bank for the FY 2022/23. This report covers the audited annual financial statements and the Board's report on the Bank's business activities for the year ending June 30, 2023.

Honourable Shareholders,

Last year was a tough time for the global economy, which experienced a contraction after a brief recovery due to several shocks. Global economic activity was already weakened by the pandemic, with economies around the world, particularly the United States and Europe, facing higher-than-expected inflation, tighter financial conditions and, the negative impact of the war in Ukraine. As rising prices continue to reduce living standards around the world, tight monetary policies are emerging with real economic costs.

Global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. While the forecast for 2023 is modestly higher than predicted in the April 2023 World Economic Outlook (WEO), it remains weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. Global headline inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024. Underlying core inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.

The Ethiopian economy that was hit by the pandemic was still affected by the ongoing socio-economic and security challenges. The challenges to the economic activity persisted, including foreign currency shortages, high inflation, drought, and internal conflicts. Inflationary pressures, in particular, remained high, reflecting increased living and business costs and reduced savings. Despite these combined challenges, the Ethiopian economy managed to record positive economic growth.

With regard to the financial regulatory environment, the National Bank of Ethiopia made several policy changes during the fiscal year to introduce prudential regulation and currency controls, such as changes in reserve requirements and the use of foreign currency, to improve the bank's operations. Moreover, the recent directive of the NBE to put in place limits on financing to the government and the private sector will have an impact on profitability and performance.

It is with great pleasure when I report to you that under such tight macroeconomic conditions, our bank has managed to register profit for the FY 2022/23. Not only does our bank registered profit but also showed significant growth on it’s performance and asset. The Bank has registered substantial growth in incremental deposit , wherein the total deposit amount reached Birr 4.9 billion as of June 30, 2023, exhibiting a huge growth from last year. Moreover, the bank financed Birr 3.6 billion which is 80% of the total deposit for the reporting period. The Bank’s total assets also grew by 138% and reached Birr 7.3 billion. Furthermore, the bank recruited 266 customers in it’s 75 branches located in different parts of the country.

In the period under review, the bank focused on cost-effective growth by improving and introducing Shariah-compliant products to improve customer satisfaction. The bank made huge investments to enhance accessibility and customer base through increased branch openings and digital banking services. Moreover, to enhance the bank’s competitiveness many activities and projects were implemented including customization of features to existing products and services.

One of the strategic investment directions of the bank is to build state-of-the-art headquarter that fit the vision and values of the shareholders. Since its first AGM, the board has been reporting the progress regarding acquiring land for it’s headquarter.

Currently, the bank has acquired more than 4,000 Msq of land from Addis Ababa city administration located at the Lideta sub-city adjacent to the National Bank of Ethiopia in an area known as the financial hub of the country. Hence, I would like to take this opportunity to thank the Addis Ababa city administration, all concerned government officials and ZamZam board for their relentless effort to achieve this major milestone. Most importantly, I would like to express my sincere appreciation to ZamZam Bank CEO, Ms. Melika Bedri for her unwavering effort and devotion for this success. Congratulations to you all!

I strongly believe that with your support and assistance, the headquarter for our bank will be built and will set a footprint for the interest free banking sector in our country. During the reporting year, the Bank's Board of Directors worked relentlessly to enhance the bank's asset growth and performance through their strategic leadership and measured directions. I can assure you that, the board and it's subcommittees will remain committed to executing its supervision role and guidance by collaborating with top management to safeguard the bank's operation cautiously and in compliance with regulatory requirements and Sharia'h principles. Furthermore, the accomplishment of ZamZam Bank so far is a testament to the blessings of Allah (SWT) and the dedication and hard work of our team. During the financial year under report the bank has received four international awards for it's contribution to the development of a full-fledged interest free bank in Ethiopia and for effectively implementing Shariah compliant core banking system. Moreover, our CEO has similarly received two international awards (IRIBA CEO and Womeni CEO of the year) in recognition of her contribution to the financial sector especially the IFB sector in Ethiopia.

The business environment is ever-evolving, and as more diverse players are welcomed and new developments are brought about by societal, political, and economic factors, the Bank must maintain track of this dynamic environment and design winning strategies in accordance. The Bank will work to overcome impending obstacles and aspires to take advantage of the numerous chances that the country's economic prospects may lend while keeping an eye on potential commercial challenges. I would like to affirm that the Board of Directors will constantly evaluate the environmental dynamics to set the Bank's expedition in the right direction to meet the bank's vision of being the leading all-inclusive Shariah compliant bank in Africa by the year 2030.

It is my conviction that the upcoming financial year is critical for our bank as we are torn between fulfilling the five billion paid up capital requirement and the one-third financing limit from the previous year. Hence, this is high time for our shareholders to rise up and support the bank in whatever way you can. We've done it in the past and we can do it now.

Finally, on behalf of the board and myself, I would like to express my sincere gratitude to our valued customers for their trust in continuing to cooperate with our bank. I would also like to thank our shareholders for their support, the members of the Board of Directors, the Bank's management and all ZamZam Bank staff at all levels for their commitment and dedication. Moreover, I would like to thank the National Bank of Ethiopia for their continuing support and guidance.

Thank you

NASSIR DINO (Ph.D)

BOD Chairperson
ZamZam Bank S.C

MESSAGE OF THE **CHIEF EXECUTIVE OFFICER**

Dear Esteemed Shareholders

It is a privilege to lead an iconic, purpose-driven and diverse bank that routed the country's financial sector in a new direction through its distinctive business model. I consider it an honor to report to you the annual performance of the FY 2022/23. The global economic environment for the FY 2022/23 has been both encouraging and challenging, clouded by considerable uncertainty.

The world economy is facing severe headwinds amid weak growth prospects, elevated inflation and heightened uncertainties. A multitude of factors, including the legacy effects of the COVID-19 pandemic, the protracted war in Ukraine, the ever-worsening impacts of climate change, and rapidly shifting macroeconomic conditions, are weighing on the global outlook.

Ethiopia is emerging from multiple shocks that have been occurring in the past years. Though these have adversely impacted the economy, according to official sources Ethiopia had achieved 7.5% economic growth in the fiscal year 2022/23. The outlook for the coming year is expected to be less constrained than the previous three years.

Dear Esteemed Shareholders

Despite all the challenges, a review of our operating and financial performances proved a successful year. Operationally, our branch expansion, customer attraction, resource mobilization and deployment have recorded positive growth compared to last year same period. Moreover, The Bank with its short period of operation has recorded a profit.

The fiscal year 2022/3 was a year of commencement and demonstration for the growth of our bank. The total Asset of the Bank has reached Birr 7.49 billion registering a growth of 138% to that of the previous year. Financing and Investment, the lion's share of the Asset, grew by 420% and stood at Birr 3.58 billion. In the fiscal year, the bank's loan stock was 72% of the deposit collected. This is a demonstration of our bank's contribution to financial inclusion. Moreover, apart from its financial operations, our bank is also providing financial advisory services to its customers and the community.

On the liability side, the aggregate deposit balance from customers grew by 214% and has reached Birr 4.98 billion by the end of the period. The total equity grew by 32% and reached Birr 1.61 billion. The share capital that constitutes 96% of the total equity grew by 27% and stood at Birr 1.699 billion.

The effort made to expand our physical presence was instrumental in bringing the Bank closer to its ever-increasing customer base and transactions. To enhance accessibility, our bank focused on footprint expansion and we accomplished opening 75 branches of which 35 are in the capital and the rest 40 are located in outlying parts of the country. The instability in some parts of the country has affected the branch opening targets of our bank. The Bank is expanding its presence into newer areas that provide significant opportunities while it gets deeper and heavier on distribution to our existing markets to help us grow our customer base. At the end of the FY, increasing by 245% from June 30, 2022, the number of customers who have opened Wadia and Qard accounts has increased to 266,394; where 189,163 more accounts were opened in the year.

Moreover, several activities have been undertaken by our bank to increase foreign exchange earnings. Accordingly, in the fiscal year, the bank was able to collect more than 19.5 million US dollars from foreign remittances, foreign currency purchases and export business. The bank has provided necessary resources to various individuals and institutions.

Furthermore, in the field of digital services, the bank has developed an in-house application ‘ZamZam mobile application’ through its internal capacity, which has made it possible to provide a complete and efficient mobile banking service to its customers by simply using the mobile application without the need for internet service. Apart from the banking services provided by branches, the bank has done a great job in getting closer to its customers. In addition, the USSD service *600# is being widely used by our customers to send and receive bank-to-bank payments.

Our bank has formed an alliance with EtSwitch following the principles of Sharia and made all payments through ZamZam bank's Card to be possible in all banks' ATM. Currently, we are offering instant card banking services to our customers, which they can access the service the moment they open an account.

As our ATM is integrated with all other Banks, we are playing our part in the interoperability of the banking service. The Bank is also working towards implementing ZamZam mobile application and Internet banking service; while engaging with international and local financial technology providers (fintechs) to provide modern digital services to its customers as well.

Our bank managed to introduce demographically tailored products that are Shariah-compliant, comprehensive and beneficial to meet the varying customer needs and enhance customer satisfaction. The bank successfully launched products like ZamZam Women, ZamZam Children, ZamZam Zakat and ZamZam Nikah by ensuring that these products could contribute meaningfully to our revenue in the years ahead.

Furthermore, we have been making a concerted effort to deliver extensive Shariah-compliant products and services that are offered in the international market by implementing global standards with the support of International consultants and Shari'a advisors. Our bank has been able to design services that differentiate it from other banks and offer them to customers. Accordingly, we've also introduced Diminishing Musharaka and social financing as a new product offering.

We strongly believe that our employees are our greatest asset and true brand ambassadors of our culture and core values. Our success greatly depends upon establishing, developing and maintaining a team that can perform to the best of its ability. With due emphasis laid on strategic acquisition and talent development, and retention we have continued enabling our employees to deliver the highest standards through continuous investment in learning and development across all levels and functions.

In the fiscal year, to strengthen our bank's human resources, we have hired permanent employees at different levels and also deployed temporary staff. At the end of the reporting period, the total human resources has reached 1,335. Along with this, more than 23 types of training were provided to employees. In addition, all newly hired employees were given on-the-job training before they started their regular assignments.

Our bank started operation by developing and implementing a five-year strategy. Nevertheless, to respond to the fierce competition more effectively and to address the challenges of the current volatile, uncertain, complex and ambiguous (VUCA) environment, the bank took the initiative to enhance its strategy, and implemented it with a customer value proposition of "Sharia compliance and customer experience".

To ensure that the offered products and services remain Sharia compliant, ZamZam bank has assigned a highly committed Sharia Advisory Committee members (SAC) who are scholars experienced in Islamic finance and Sharia. Accordingly, with the guidance of the SAC the Bank remains Sharia compliant, as Sharia compliance is at the heart of ZamZam Bank's operations.

The Bank's Management is working on creating a risk management environment by clearly identifying its risk objectives, strategies and establishing systems that can identify, measure, monitor and manage various risk exposures. Since some risks are much more serious in the Interest-free banking than in the conventional banking system, hence, the Bank believes prudent risk management in IFB is needed to cope with both the national and global challenges.

In another development, the bank has signed MOUs with various private and government institutions, including Ethio Telecom; DARO, Information Network and Security Agency, Faisal Islamic Bank as well as local banks that would enable it to work together in a collaborative manner. The bank also signed agreements with agents outside of Ethiopia, especially to sell its shares to the diaspora community; these and other efforts made it possible to collect outstanding payments from shareholders. In addition, our bank has facilitated various customer session platforms involving our 'Ulemas' to create awareness for the society.

One of the values of ZamZam Bank has been set as fulfilling social responsibility. In this connection, we have been participating in many social responsibility activities. Accordingly, in the reporting period, the Bank has provided Qard Al Hassan financing to women and less privileged people engaged in micro and small businesses. In addition, our bank has supported the 'Gebeta Letiwulid' Project with birr 2.18 million. In the reporting period, our Bank, has donated more than 1.7 million birr worth of carpet to the newly built Sheikh Hassan Gemeda in Shashemene.I would like to take this opportunity to express our commitment to strengthening our partnership with our community.

Apart from the numerical results achieved in the last financial year, our bank has received various international awards in various forums. Among them were: The Best New Financial Inclusion Brand Award by Global Brand Magazine, The Strongest Islamic Retail Bank in Ethiopia 2022 (Islamic Retail Banking Awards/IRBA), and the IRBA CEO of the Year 2022, and received Womani CEO 2022 awards. It is to be recalled that our Bank also received the IBS Global Fintech Innovation Award 2022 last year. In recognition of its contribution to establishing and strengthening interest-free banking in Ethiopia, in the current fiscal year, our bank has won the GIFA Championship Award 2023 in the field of Islamic banking at the International Islamic Finance Award (GIFA), which is known for acknowledging and giving awards to institutions and individuals who have made a significant contribution to the development of Islamic finance around the world.

Within its short period of establishment, our bank has acquired 4,135.66 square meter plot of land at the heart of Addis Ababa city, for the construction of its headquarter building which is a big achievement to all ZamZam family. Inshallah, the future of ZamZam bank HQ will be the new landmark for the financial sector.

Although our bank achieved a lot as mentioned above, we went through various challenges that have not yet been resolved. Among them, the lack of a legal framework to provide complete interest-free banking services in accordance with international standards, the existence of operational problems related to taxes, lack of qualified human resources in the field, and lack of public awareness are few of the current problems.

In addressing the challenges, our Bank is collaboratively working with all stakeholders and the relevant government bodies. It is trying to create awareness about Islamic Banking and Finance through training, workshops, seminars, social media, and broadcast campaigns. Further recommendations were also forwarded to concerned organs to make adjustments on the legal frameworks in a way that accommodates Islamic banking finance practices and enhance their performance in the financial system of the country.

The FY 2022/23 has certainly been a challenging and exciting year for our bank as we have made positive progress and our bank is getting stronger today than it was a year ago regardless of the unstable business environment.

As a way forward, ZamZam Bank is moving with the core objectives of striving to have an inclusive Sharia-compliant banking system in the country, increase its market share, and enhance accessibility. moreover, in the coming years, our bank will work towards sharing profit with its shareholders.

In the fiscal year, we have created a partnership with international multilateral foundations and facilitated the working environment using a digital lending platform. Accordingly, we have facilitated the provision of the service in a streamlined manner by structuring and organizing the social financing department. In this respect, the bank is planning to channel financing to startup businesses along the value chain being supported with technical training and capacity building programs.

To be prepared for the upcoming business environment, our bank is working towards creating partnerships to share knowledge and experience with global financial institutions. In addition, these strategic agreements would create a bridge for the bank to sell equity shares, create correspondent bank relationships, and mobilize deposits.

I am excited about the future that we all share building strong foundations to expand our impact, increase our reach, and accelerate our pace. This is due, in no small part, to the untiring efforts of our management and staff who displayed high levels of commitment to implement our strategies. I would like to take this opportunity to express my appreciation to our Board for their dedication, leadership, and strong oversight role; and to our Sharia council members for their advisory, guidance, their role in creating awareness in society.

I look forward to the coming fiscal year when we at ZamZam Bank take another step closer to achieving our ultimate ambition. I would like to say thank you to our shareholders, and our valued customers for making us part of history in the development of interest-free banking in our country. It has been and will continue to be a journey worth embarking on, together.

Finally, I would like to extend my gratitude to the Federal and Regional Governments Offices and particularly the National Bank of Ethiopia for their unreserved support, and guidance rendered to us in our regular activities.

MELIKA BEDRI

Chief Executive Officer
ZamZam Bank

MESSAGE FROM THE **SHARIAH ADVISORY COUNCIL**

IN THE NAME OF ALLAH, THE MOST GRACIOUS THE MOST MERCIFUL

We members of Shari'a Advisory Council of ZamZam Bank feel honored to serve the pioneer and the first full-fledged Islamic bank in Ethiopia. We admire and appreciate the cooperation rendered to us by the Chair of the Board of Directors, the CEO, and the top management to carry out our duties with clear conscience. We are obliged to express our congratulations on the commitment and exemplary Islamic behavior exhibited by the staff of ZamZam Bank.

The challenges of operating an Interest-Free Bank in our environment are multifarious. The absence of readymade, qualified and experienced Islamic bankers is one while limitations on fully implementing Shari'a products in the right way is another. The absence of coordinating and controlling body of various fatwas given by different advisory councils is also a challenge. Despite the above challenges, the council has been judiciously carrying out its responsibility to the best of its abilities.

We believe that ZamZam Bank is on the right track paying attention to all our advice and trying to accommodate our request to discuss with the NBE to facilitate the implementation of Shari'a in all its aspects. Moreover, issues of creating awareness among community members and paying attention to finance small and medium businesses are hopefully the areas that we have planned to undertake in the coming years. We pray Allah to guide those who are dealing with Riba in the present day where an alternative Riba-free bank is made available through tedious and long struggles to achieve it.

Abdul W.Y.

USTAZ ABDULWASIE YUSUF
CHAIRMAN – SAC

BOARD DIRECTORS

NASSIR DINO (Ph.D)
BOD Chairperson

ENDRIS MOHAMMED (Ph.D)
Member

SALAHADIN KHALIFA
Member

BIYA HAJI
Member

NUREDIN MOHAMMED
Member

OUSMAN OUMER
Member

LEYLA NASSIR
Member

MEKANESELAM MOHAMMED
Member

JEMAL MUZEYN
Member

MUSTEFA MOHAMMED
Member

SHARI'AH ADVISORY COUNCIL

USTAZ ABDULWASIE YUSUF
CHAIRMAN – SAC

SH. ABOBAKER ABDULLAH
D/CHAIRMAN –SAC

USTAZ NURDEEN ABDA
Secretary

USTAZ Hamid Musa

member

USTAZ Mohammed Siraj Mohammed

member

EXECUTIVE MANAGEMENT

MELIKA BEDRI
President / Chief Executive Officer

SISAY GEBRU
VP- Corporate Services

KEDIR BEDEWI
VP - Operations

KALID AHMED
Chief Information Officer

ENDRIS UMER
Chief Strategy Officer

HINDIA MOHAMMED

Director, International Banking Operation

ABDELLA OUSMAN

Director, Finance & Accounts

ANWAR ABRAR

Director, Branch Operation and Channel Managment

BINYAM TESFAYE

Director, Executive Assistant to the CEO

MEKIA DINO

Director, HRM and Development

MERIEM NASIR

Director, Internal Audit

ZERIHUN GIRMA

Director, Risk and Compliance Managment

ABDULJUHAD HASSAN

Director, Customer Relationship Management

HANAN DESALGNE

Director, Financing and Investment Appraisal

SEMIR TEKA

Director, Legal Service

1. The Board of Directors Report

It is with pleasure that the Board of Directors of the Bank presents the annual performance report for the year 2022/23. In this report, we present a quick summary of comparative performances.

The board has so many initiatives to strengthen the bank's positioning in the local and international financial sector. During the reporting period, the Bank has made aggressive efforts toward increasing the financing portfolio of the Bank to the maximum level by making the necessary process and system improvements. Similarly, maximum efforts have been made concerning deposit mobilization and increasing the income of the Bank’s international banking and other related services. Furthermore, during the reporting period, the restless efforts made by the Board and management since 2019 have borne fruit in securing the approval of the requested land by the Addis Ababa City Administration Office. The plot total area is 4135.66 square in the financial district adjacent to NBE. Fifteen percent lease value is paid and the building project feasibility study, preliminary design, public opinion, and project execution model is under development by the HQ project office. In the coming weeks or months, we expect the land to be handed over to us and then we would immediately proceed with site clearance, BDD (Bid Design and Build), design approval and other preliminary works needed for commencing the construction of the Bank’s headquarters.

Among many, the fundamental way forward in the coming year is to continue implementing the enhanced strategic plan and formation of ZamZam Investment Holdings by initiating subsidiaries in Real Estate, Trading and resorting to other alternative products to withstand the recently introduced credit cap policy. Moreover, we need to aggressively work on and realize the five Billion capital increment plan. Further, collaboration with local and foreign full-fledged IFBs in many perspectives would be continued in a more strengthened fashion in the coming fiscal year.

1. 1. Corporate Governance

1.1.2. Board of Directors

The existing members of the Board of Directors (BOD) of our Bank were nominated by the Board Nomination and Election Committee and subsequently were elected by the shareholders through a well-established and transparent process at the Second Ordinary General Shareholders Meeting of the Bank. However, due to encountering some technicalities, securing the required approval for the incoming Board by the NBE had taken a lot of time and finally be able to secure the approval on July 25, 2023. Accordingly, as per the relevant Directive of the NBE, the outgoing Board was forced to continue discharging its responsibilities throughout the reporting financial year.

As per the memorandum of association, the BOD is required to have 11 members, who meet the requirement of a mix of core competencies and educational qualifications as per the corporate governance directives of NBE.

1.1.2. Structure of the Board

The BOD has a Chairperson, Vice Chairperson elected by the board members, four subcommittees, namely HR and Procurement & Logistics Sub-Committee; Risk, Loan Review & Compliance Subcommittee, Strategy and Innovation Subcommittee and Audit & Control Subcommittee and a Company Secretary. Furthermore, the Board from time to time recruits or forms technical committees to benefit from the know- how, exposure and technical skill of its shareholders, volunteers and consultants from the diaspora, and international players.

1.1.3. The Functions of the Board

The BOD has ultimate responsibility for the development and implementation of our Bank’s appropriate business strategy and financial soundness, decisions on key personnel, internal organization and governance structure and practices, and risk and Sharia compliance requirements.

Moreover, the Board of Directors discharges other functions and responsibilities as entrusted under the Memorandum of Association of the Bank, the Commercial Code, and other relevant Directives of the NBE. With a view of discharging its fiduciary duty, the Board has conducted more than 19 regular and extraordinary meetings excluding the respective subcommittees and management & SAC joint meetings. Among others, during the reporting financial year, the Board reviewed and approved the Business Plan, deliberated on periodical performance reports of the management, and also gave the required direction and exercised its various oversight and supervisory roles.

Moreover, during the financial year under reporting, the Board has also conducted the required performance evaluation on a semi-annual basis. Accordingly, based on the evaluation results, the Board has tried to improve some of its weaknesses and keep on with strengths. The major roles of the Subcommittees of the Board of Directors are briefly stated under.

1.1.3.1. The Strategy and Innovation committee:

The Strategy and Innovation Subcommittee consists of four Directors. The committee supervises the proper implementation of the Bank's overall business operation and IT strategy. The committee gives priority to digitalization and business, Investment, and IT functional strategies, which is one of the strategic plans of our Bank. The committee members with diverse knowledge, talent, and experience, are effectively directing and supporting the management to implement a number of functional strategies of the Bank.

1.1.3.2. HR & Logistics Sub-Committee:

The HR & Logistics Subcommittee consists of three Directors. The committee supervises the proper implementation of the Human Resource functional strategy, which is part of the strategic plan as well as the proper management of logistics requirements of the Bank. The committee members have diverse knowledge, talent and experience, are effectively directing and supporting the management to carry on the aforementioned duties.

1.1.3.3. Audit & Control Sub Committee:

The Audit & Control Subcommittee consists of four Directors. The committee supervises the proper performance of the audit activities of our Bank with the view of ensuring that effective internal control systems and processes are put in place and properly functioned. The committee, whose members have diverse knowledge, talent and experience, is effectively supervising the performance of the auditing function of our Bank.

1.1.3.4. Risk, Loan Review and Compliance Subcommittee:

The Risk, Loan Review and Compliance Subcommittee consists of three Directors. The committee supervises the proper performance of the Risk and Sharia Compliance activities of the Bank with the view of monitoring risk exposure and management by ensuring compliance of the overall operation with Sharia principles including various pertinent laws of the land and own policies and procedures. During the reporting period, this committee is also tasked with the responsibility of loan review. The committee members with diverse knowledge, talent, and experience, are effectively supervising the Risk and Compliance, Sharia Advisory Council, and Loan Review functions.

1.1.4. Directors' Allowance

The directors are entitled to a monthly allowance of Birr 10,000.00 which is settled under the pertinent provisions of NBE's directive No SBB/67/2018. Other than the stated allowance no other payment or benefits is paid to Board members.

1.2. Sharia Advisory Council (SAC)

Shari’ah Advisory Council (SAC) is an independent body of Shari’ah scholars specialized in Fiqh al Mu'amalat (Islamic commercial jurisprudence). It plays a critical role in the Bank’s services in ensuring sound, prudent, and comprehensive compliance with Shari’ah rules and principles at all times and in all aspects of the Bank’s business operations and activities.

The SAC is a body of qualified Shari’ah Scholars responsible for ensuring that the products and contracts of the Bank’s services comply with the principles of Shari’ah. The SAC has five members composed of the Chairman, Vice Chairman, and secretary including one expat volunteer .

The SAC has the authority to decide on Shari’ah-related matters referred to it without undue influence that would hamper the committee members from exercising objective judgment in deliberating issues brought before them; also ensure that decisions made by the SAC are duly observed and implemented by the Bank.

1.3. The Management

The Bank is led by the highest ranking executive officer who is primarily responsible for the day-to-day management of the affairs of the Bank as stipulated in Article 17 of the memorandum of association.

The Bank’s Executive Management consists of the CEO, Vice Presidents, Chiefs and Directors who are directly reporting to the CEO, and any senior management staff, as may be decided by CEO/President.

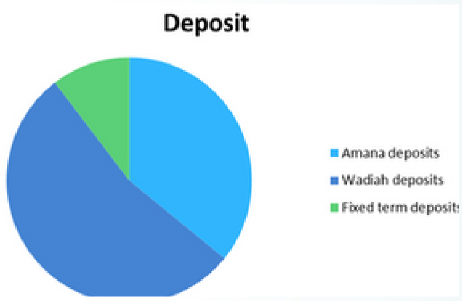
The Executive Management Committee is primarily a decision-making body established by the CEO/President of the Bank to create an information forum and a platform for discussion of issues. Currently, the Bank has a CEO, two Vice Presidents, Chief Information System Officer, Chief Strategy & Resources Officer and eleven Department Directors.

1.2. Summary of Operational Performance 1.2.1. Deposit Mobilization

Despite socio political and stiff competition challenges witnessed in the financial year, the Bank has achieved remarkable results in deposit mobilization during the year 2022/23. During the year alone, the Bank mobilized additional deposits of Birr 3.39 billion. Consequently, the aggregated deposit attained Birr 4.98 billion.

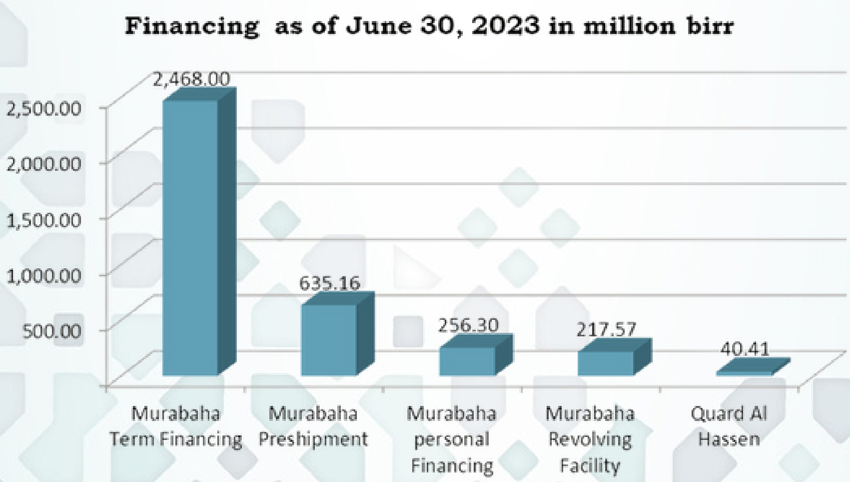
Looking at the performance of individual deposit types, the Bank has managed to mobilize Birr 1.787 billion(35.89%), Birr 2.676 billion (53.73%), and Birr 516.90 million (10.38%) through Amana, Wadiah, and Fixed Term Deposits respectively.

The highest deposit was gained from Wadia followed by Qard accounts while Mudarabah saving and Mudarabah investment had the least contribution from the total deposit amount of 4.980 Billion.



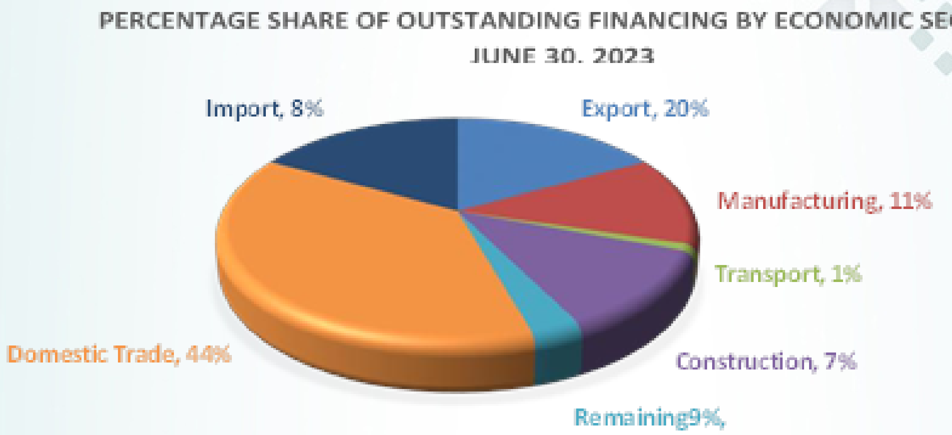
1.2.2. Financing and Investment

During the financial year, the Bank has managed to finance customers engaged in various business and investment activities. The total outstanding financing of the Bank reached Birr 3.617 billion on June 30, 2023. The disbursed financing was in the form of Murabaha Pre-shipment Birr 635.16 million, Murabaha Term Financing Birr 2.468 billion, Murabahah Merchandise facility 28.2 million, Murabaha revolving facility Birr 217.57 million, Murabaha personal financing 217.2 million, Qard for foreign employment agency 10.8 million, and Qard Al hassen -emergency Staff Financing Birr 40.41million.



Murabaha term financing has the highest percentage share of the total financed products followed by Murabaha pre shipment financing. Murabah revolving facility, Murabaha personal financing and Qard Al hassen emergency staff financing had the least contribution for the FY 2022/23.

Looking at the total outstanding financing of the Bank as of June 30/2023 by economic sector, Domestic trade was the highest financed sector with a 44% share of the total disbursed amount. Export (20%), manufacturing (11%), and Import (8%), construction (7%) were the sectors that received financing respectively. The remaining sectors constitute 10% of the total outstanding financing collectively.



1.1.2. International Banking Services

The bank started operations when the global sociopolitical economy was heavily affected. Moreover, there was limited correspondence banking relationships due to the compliance procedure of international banks to accept new banks, especially from Africa. The frequent change in the NBE directives related to the surrender requirement of banks' FCY generation and allocation of the remaining portion with low rating given to the country due to political reasons were few of the factors that held back the bank from providing international banking services in full capacity.

However, the bank relentlessly worked to maximize its foreign exchange earnings and establish partnerships with international businesses and organizations. Despite the different hurdles, the bank has managed to establish correspondent banking with four banks and eight accounts in three currencies (USD, EUR, & GBP). Moreover, it had signed an agreement and started operations with money transfer agents like Western Union and Dahabshiil. It also managed to mobilize an equivalent USD amount of 19.53 million.

1.2.3. Non-performing Financing (NPFs)

For the year 2022/23 the Bank does not have any NPF portfolio.

1.3. Financial Performance

1.3.1 Income

Total operating income of Birr 524.8 million was generated during F.Y. 2022/23. The gross profit for the year was Birr 24.1 million. While the operating income was Birr 524.8 million, which comprises profit income from investment of Birr 94.2 million and a total of Birr 93.1 million from commission, service income and sundries, the remaining 337.57 was generated from mark-up financing.

1.3.2. Expense

During the period under review, the Bank incurred a total operating expense of Birr 492.6 million. From the total expenses of the Bank, 60% (Birr 295.9 million) spent for Salaries and benefits, other operating expenses constitute 40% (Birr 196.7 million) out of the operating expense, depreciation for the right of use asset or rent expense takes the lion share as 25% or Birr 50 million; while the remaining 75% has been incurred for various operational expenses including an Audit Fee of Birr 402,500, and BOD fee related expenses of Birr 0.6 million.

1.3.3 Profit/Loss

At the end of June 30, 2023, the Bank has registered a profit of Birr 24.1 million. The target for the period was to attain at least a break even. Accordingly, we can conclude that we have able to achieve more than our target. It is encouraging and in the year to come a more remarkable performance will be achieved.

1.3.3 Asset

Total asset of the Bank has increased by Birr 4.336 Billion during the current fiscal year, and stood at Birr 7.493 billion at the end of June 2023. The variation in the total asset growth was attributed primarily to significant changes witnessed in Financing and Investment (2.895 billion), cash and Bank balance (107 million), investment (230 million), increase in Property, plant and equipment (50.04 million), right of use asset (79.8 million), lease hold land (161.5 million)and Accrued profit receivable on murabaha (609 million), and others (202 million).

1.3.5 Liabilities

Total liabilities of the Bank at the end of the reporting period has reached Birr 5.88 Billion Birr, which is above last year's total liabilities (Birr1.94 billion) by Birr 3.94 Billion Birr. The major contributor (Birr 3.39 Billion) or 86% is deposit from customers. While other liabilities, and unearned profit for murahabah constitutes the remaining part.

1.3.6 Capital

The total capital of the Bank reached Birr 1.7 Billion at the end of June 30, 2023, indicating an aggregate increment of Birr 357 million (21%) in the year under review. The Paid-up Capital of the Bank stood at Birr 1.7 Billion as at the end of June 30 2023. The recorded amount was higher by Birr 357 million (27%) from last year same period balance.

1.4 Non Fiancial (Business Developed) and other Administrative Issue

1.4.1 Branch Network

As of June 30, 2023, the total number of branches of the bank reached seventy-five (75); of which thirty-five (35) branches (47%) are located in Addis Ababa city while the remaining 40 branches (53%) are outside of Addis Ababa.

During, the reporting period, with a view of assisting and immediately addressing some of the difficulties faced by our branches, the Board of Directors and Executive management has undertaken various visits to some selected city and outlying branches of the Bank.

1.4.2. Customer Base

During 2022/23 F.Y., efforts were made to expand the customer base through various means such as making campaigns, branch expansion, customer visits, and enhancing the follow-up and support activities by involving the Board of Directors, Shariah Advisory Board, and management staff. Due to this effort, the total number of customers who opened deposit accounts as of June 30, 2023 has reached 266,394, showing a magnificent increment from June 30, 2022 position.

1.4.3 Information System

For creating an efficient banking system, that can respond adequately to the needs of a growing economy, technology has a key role to play. The impact of technology on the banking industry is witnessed in the speed and ease of banking services in the country today.

Hence, our bank has selected the Information system as one of its strategic pillars and made a huge investment to provide on time banking services by creating newer and better opportunities for customers.

For the 2022/23 FY, the bank succeeded in executing several IT initiatives and projects. Various projects were completed during the fiscal year, including Derash (Electronic tax payment) Integration, School fee collection system (Unicash), IT Infrastructure Migration, and USSD Mobile Banking Phase 2. Additionally, ongoing projects initiated in the same fiscal year include ECX Integration, Internet and Mobile Banking Procurement, ATM Implementation, Disaster Recovery Hardware, Security tools, middleware Implementation, Digital Lending with Qena Financial Technologies, and Integration with Kacha Financial Technologies.

Moreover, a significant system configuration was implemented to ensure the creation and maintenance of Sharia-compliant products, specifically addressing diminishing profit recognition in financing contracts and other related areas. To enhance internal processes and improve customer experience, various applications were developed internally. These applications include the ZamZam Mobile Application, HR System – Phase One, KYC customization in the FlexCube system, Annual General Assembly Management Version 2, ZamZam Bank Enterprise Portal, Haj Integration, HR Vacancy and Filtering system, and Real-time Dashboard system.

1.4.4 Digital Service

Considering the rapid change in the finance industry and the emergence of new players, it is more apparent that banks need to change their competitive strategies to digitalization. Hence, our bank is profoundly working to implement digital services to keep its customer service experience streamlined and comfortable.

During the reporting FY, the bank managed to deliver and distribute 25,586 Debit cards to customers while the total transaction on card banking reached Birr 69.82 million. Likewise, during the reporting period, the total number of USSD subscribers had reached 37,151 while a total of Birr 1.95 billion was transacted on this platform during the fiscal year.

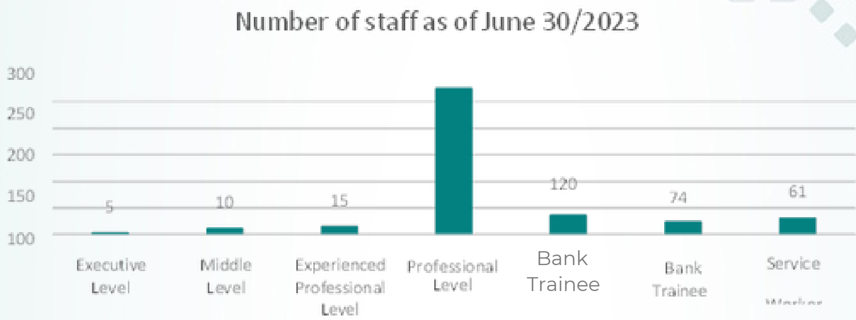
Currently, there are ongoing efforts to implement digital services like Internet banking, mobile apps, agency banking, school fee management systems, partnerships with Fin-tech companies, and deployment of its ATM and POS machines. These projects are expected to be fully deployed by the end of the next fiscal year.

1.5 Human Resource Management and Development

The bank conducted different activities to enhance its human capital both in terms of number and competencies.

1.5.1 Human Resource Management

To fully support the rapidly growing operational activities, during the 2022/23 fiscal year, the Bank has recruited permanent staff in different disciplines. As a result, as of June 30, 2023, the total number of permanent staff headcount of the Bank reached 664 where 412 are male and the remaining 253 are female.



1.5.2 Training and Development

Training and Development programs have a great impact on the overall organizational performance. Since the sector was new, especially at the time of commencement, it was difficult to get qualified human resources that met the bank's standards. To tackle this, the bank concentrated on enhancing the skills and know-how of the staff through training, workshops, and coaching. Moreover, several induction programs were organized for new staff by in-house and external trainers.

To successfully attain its strategic and operational goals, the Bank has continued giving special attention to the training and development of its staff. Hence, various types of training, workshops, and induction programs were offered to 878 employees (The majority of the employees have taken training more than once) of the Bank during the fiscal year. In addition, consecutive Leadership and life skill trainings were also given by international consultants and trainers to staff at management and above level.

In furtherance to training conducted, the Bank has made various efforts to enhance the capacity building activities. Accordingly, various correspondences were made with international organizations, embassies and other overseas partners to facilitate the capacity-building activities, where promising responses were also achieved.

1.5.3 Summary of Major Performance against Plan

S.No	Description	Ccy	Actual June 2021/22(Million)	Actual June 2022/23 (Million)	Projection plan 2023 (Million)	Achievement in % Age
			Quantitative			
1	Asset	ETB	3,157.00	7,494.00		237%
2	Liability (except deposit)	ETB	352.00	902.50	550.50	256%
3	Deposit	ETB	1,586.00	4,980.50	4,500.00	>100%
4	Paid up capital	ETB	1,341.00	1,699.00		27%
5	Financing & Investment	ETB	692.00	3,617.00	5,200.00	<100%
6	Investment	ETB	200.00	580.00	760.00	<100%
7	Forex- Generation in Dollar	USD	0.14	19.50	28.64	<100%
8	Revenue	ETB	40.00	517.00	436.00	>100%
9	Expense	ETB	186.00	493.00	436.00	>100%
10	Profit	ETB	(146.00)	24.00	-	

S.No	Description	Ccy	Actual June 2021/22	Actual June 2022/23	Projection plan 2023	Achievement in % Age
			Qualitative			
11	No of Permanent employee		856.00	664.00	856.00	78%
12	No of head office staff		179.00	153.00	179.00	85%
13	No of branch staff		648.00	511.00	648.00	79%
14	No. of outsourced staff		747.00	670.00	747.00	90%
15	Customer Base		77(thousand)	266(Thousand)	381 (Thousand)	70%
16	Mobile banking users		2,086.00	37,151.00	38,160.00	97%
17	ATM –Card users		1,139.00	13,139.00	76,320.00	17%
18	No of branches		40.00	75.00	90.00	83%

Note:

Total asset increased from 3.157 to 7.494 billion by 237% for the period 2022/23.

- Financing portfolio increased by 2.896 billion birr for the entire financial period
- Accrued income receivable for financing and investment increased by 609 million birr.
- Granting of land from Addis Ababa city administration with the carrying value of birr 161.5 million under lease agreement
- Investment of birr 230 million increment as compare as last year

Liability Other than deposit increased from Birr 352 to 902 million i.e. by 256% for the period 2022/23.

- Due the financing portfolio increment the under earned profit is increased by birr 424 million.
- Unpaid lease obligation to Addis Ababa city administration office birr 137.3 million.

1.6 Strategy Development

Running a business strategically results in meeting its vision and ensuring its sustainable growth by exceeding customers' expectations. In addition, a coordinated and integrated corporate strategy can help the business deliver promised products and services that maximize the stakeholders' delight. Basically, having short, middle, and long-term goals for which the business efficiently and effectively operates will eventually encourage the business to be proactive and navigate different opportunities from technology and digitalization, respond to competition more effectively, and address the challenges of the current volatile, uncertain, complex, and ambiguous environment.

Accordingly, the bank has taken the initiative to further enhance its strategy to accommodate the above-mentioned environmental changes. The enhanced strategy has been started to be implemented beginning July 2022 with the customer value proposition "Sharia compliance customer experience". Furthermore, the bank has enforced its strategy execution capability by working on effective leadership and cascading the strategy by providing training and workshops to its employees. Strict implementation of the performance management system is also part of the strategy execution and enforcement effort.

Given the current policy and financing challenges, the bank initiates new products and services to fit its purpose. In this regard, the board and management have revised murabaha financing and pricing and initiated musharaka and other services. The bank is also working hard to pool hard currency from different sources globally and from exporters

1.7. Stakeholder Engagements

In the 2022/23 FY, a number of shareholder and customer engagement sessions have been conducted with the participation of the board and executive management members. Branch inaugural events and promotions have been conducted while opening branches. In addition, various media engagements were undertaken, and press releases were made during the launch of new products and services. Moreover, to the marketing campaigns at various branches, the bank has been promoted through different visual and social media channels.

1.8. summary of the Sharia Advisory Council (SAC) Report

During the year under review, the Shariah Advisory Council of the Bank has actively been involved in giving 'fetwa' and creating awareness in different aspects of society. In addition, the SAC members visited branches of the bank and observed the operational activities, where they created awareness of Sharia rulings. Further, the SAC members conducted induction programs for new entrant employees of the bank. Moreover, the SAC has organized the Role of Ulema's conference to enhance the awareness of the ulemas and stakeholders.

1.9 Risk Management and Compliance

To improve the risk management assessment and monitoring capabilities of the bank, during the year under review, the required risk and compliance management activities were performed. Accordingly, risk and compliance reports were produced and sent to the supervisory organ. The bank has been engaged in fulfilling KYC requirements as per NBE's directives.

1.9.1. Internal Control

Internal control systems help as a checking mechanism to find and correct wrongdoing within the shortest possible time. With this understanding, the bank has put in place an appropriate internal control system that undertakes regular assessments of different organs of the bank to examine whether the bank is complying with regulatory requirements as well as internal policies, procedures, and standards.

The bank's internal control unit is an independent unit that directly reports to the board of directors, and it has the capability and authority to freely examine different functional units of the bank. In FY 2022/23, various inspections and audit examinations on the overall operational activities of branches and head office organs were conducted. Moreover, special investigations into fraud incidents and customers' complaints were conducted during the period under review.

1.10 Headquarter Building Acquisition

Acquiring Headquarter building and other buildings in Addis Ababa and other regional towns is very important, not only for image building but also to enhance organizational efficiency and effectiveness. In this regard, the bank, by concluding a lease contract, has recently acquired a 4135.66 m2 plot of land in Addis Ababa, Lideta Sub City, within the vicinity of the financial district, to be used for the Head Quarters building.

Currently, the bank is undertaking the necessary follow-up with the Lideta Sub-City Land Management Administration with a view to speeding up the handover process and immediately commencing the construction of the bank's headquarters. In connection with this, the bank appreciates the architects' team led by Tofik Abadir for the initial preliminary design proposed free of charge and the ongoing preliminary design by DAR Consultants based on the concept note prepared by the bank for the future headquarters. Under this initiative, with a view to ensuring the designs of the future headquarter of the bank that duly reflect the interests of all the stakeholders, an attempt was made to gather various opinions from the public through various social media and the bank's website.

Finally, the Board of Directors would like to take this opportunity to express its gratitude on behalf of the Bank to Addis Ababa City's administration for responding to our land request.

1.11. Corporate Social Responsibility

Beyond the provision of financial services, the bank upholds its values even under difficult circumstances and challenges. Based on one of Sharia principles, 'Zekat' with the aim of alleviating poverty in society at large, the bank crafted and supported projects and undertaken its social responsibilities through funding social financing activities. To facilitate these activities, the bank has launched Zakat, Sadakat, Waqf, and social financing products. Moreover, the bank has opened a Sadaqa account, which is credited with the penalty charges that are collected from its customers based on various financing contracts.

Further, the Board of Directors of the Bank has donated their one-year allowance to the charity account. In the same token, the management has contributed their salary to be part of the charity program. During the reporting period, the bank has used this charity account for the purpose of extending seed money to forty women who are engaged in various small and microentrepreneurial activities. In connection with this, the Bank, in collaboration with the Ministry of Labor, has given the necessary training to those women entrepreneurs who were found eligible for the seed money. In the coming financial year, the bank will undertake more work to mobilize more funds for the charity accounts, including finding more donors based on both local and international sources.

1.12. Capital Increment Initiatives

During the reporting period, in order to achieve the NBE 5 billion capital requirement, the bank has started to offer new shares for sell by giving the required priority to the existing shareholders of the bank. To this end, the bank has adopted a capital increment roadmap and established a project office that is dedicated to the activity of share sell.

In the coming financial year, with a view to meeting the Birr 5 billion capital requirement, the bank has planned to undertake more aggressive work by involving all stakeholders, promoters, and commission agents. In connection with this, among others, the existing shareholders are highly expected to reaffirm their commitment to the bank by increasing their investment by purchasing more and more new shares.

1.13. International Business Relationships and Awards

During the reporting period, the bank has tried to form and engage in business relationships with some international IFB banks. In this regard, among others, the bank has concluded MOUs with many foreign banks. Likewise, the bank has initiated deals with Turkish ventures.

Moreover, the bank has a deal with a company based in America with the goal of securing finance in foreign currency and assisting the bank in finding correspondent banking relationships. Similarly, the bank has concluded MOUs with Turkey-Germany and Middle East-based companies with a view to securing technical assistance and finding potential investment partners. For the talent development capacity building and exposure visit, the IDB (Islamic Development Bank) effort has made good and promising progress.

SME is the strategic future of the bank. In this regard, a dedicated department is created in the bank to support the SME in project feasibility analysis and financing without collateral, mainly for women entrepreneurs and youths, with the collaboration of international funds like Mastercard. Evidently, the Bank has won to be one and the only one of the IFBs in Ethiopia to be sponsored by the said initiatives.

1.14. Going Forward

The year ahead gives us another opportunity to put the bank on the list of industry players. The bank endeavors to attain the directions set in its strategic plan and sustain the growth momentum registered in most parameters during the previous year.

In the years to come, the country's stability is expected to improve, and economic activity will be stimulated as a consequence. However, we are aware of the challenges we are facing in the coming year, which include the following:

- The competition will get fiercer since a considerable number of new entrants are joining the sector with specialized services or target markets, as well as foreign banks.
- Besides, the economic condition, the growing competition for deposits, the unprecedented gap in the foreign exchange parallel market, and the growing inflationary situation
- Difficulty in meeting FCY-generating customers (potential exporters) due to their strong financing needs; and NBE's directives related to the surrender requirement of banks' FCY generation and other similar restrictions;
- International banks' unwillingness to accept correspondent banking relationships with new banks (especially African banks) may remain a challenge.
- Financing cap and new product introductions foster a friendly environment among stakeholders, including legislators and NBE.
- Shareholder engagement to raise their share and invite new share subscribers to our bank
- Technology investment and appropriate human or professional resources are scarce.

INDEPENDENT AUDITOR'S
REPORT
ON THE FINANCIAL STATEMENT OF

ZAMZAM BANK SHARE COMPANY

As at and for The year ended 30 June 2022

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Authorized Accountants and Auditors
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ZAM ZAM BANK SHARE COMPANY
ANNUAL FINANCIAL STATEMENTS
TABLE OF CONTENTS
FOR THE YEAR ENDED 30 JUNE 2023

ZAM ZAM BANK SHARE COMPANY
DIRECTORS, PROFESSIONAL ADVISORS AND REGISTERED OFFICE
FOR THE YEAR ENDED 30 JUNE 2023

DIRECTORS (As of June 30, 2023)

List of Board Members	Responsibilities	Appointment
1 Dr. Nasir Dino Bedru	Chairman	June 17, 2020
2 Dr. Endris Mohamed Yesufe	Member	June 17, 2020
3 Ato. Nuredin Mohammed	Member	June 17, 2020
4 Woy. Leyla Nassir Kemal	Member	June 17, 2020
5 Ato. Biya Haji Abadula	Member	June 17, 2020
6 Ato Salhadin Khalifa Abdulkadir	Member	June 17, 2020
7 Ato Jemal Muzeyn Mohamed	Member	June 17, 2020
8 Woy.Mekaneselam Mohammed Negewo	Member	June 17, 2020
9 Ato Mustefa Mohammed Habte	Member	Nov 1 ,2022
10 Ato Ousman Oumer Mustefa	Member	Nov 1 ,2022

Executive Managements

Melika Bedri	Chief Executive Officer	Aug-20
Sisay Gebru	Vice President – Corporate Service	Nov-20
Kedir Bedewi	Vice president - Operations	Apr-21
Kalid Ahmed	Chief – Information officer	Jan-23
Endris oumer	Chief – Strategy officer	May-23
Merima Nasir	Director – Internal Audit	Jul-21
Zerihun Girma	Director – Risk & Compliance Management	Jun-21

Senior Managements

Binyam Tesfaye	Director- Executive Assistant to CEO/President	Aug-21
Abdella Ousman	Director- Finance & Accounts	May-22
Hindia Mohammed	Director – International Banking Operation	Jan-21
Semir Teka	Director- Legal Service	Dec-21
Mekiya Dino	Director- HRM & Development	Apr-21
Anwar Aberar	Director- Branch Operation & Channel manager	Jul-22
Abdujuhad Hassen	Director – Customer Relationship Management	Mar-23
Hanan Desalegne	Director – Financing & Investment Appraisal	Mar-23

Independent auditor

TAY Authorized Accountants and Auditors Ethiopia
Tel +251 114-421336
Addis Ababa, Ethiopia

Corporate office
Zamzam Bank S.C
Kirkos Sub City, Woreda 02
Ethio-China Friendship Street
Addis Ababa, Ethiopia

Abdujuhad Hassen	Director – Customer Relationship Management	01-Mar
Hanan Desalegne	Director – Financing & Investment Appraisal	21-Mar

ZAM ZAM BANK SHARE COMPANY
DIRECTORS, PROFESSIONAL ADVISORS AND REGISTERED OFFICE
FOR THE YEAR ENDED 30 JUNE 2023

The Directors submit their report together with the financial statements for the financial year ended on 30 June 2023, to the members of Zamzam Bank Share Company. This report discloses the financial performance and state of affairs of the bank

Incorporation and address

Zamzam Bank SC. was incorporated on 28th of September 2020 in accordance with the commercial code of Ethiopia 1960, and it was licensed by the National Bank of Ethiopia on to transact commercial banking.

Principal Activities

The Bank's principal activity is sharia compliant interest-free commercial banking.

Operating Results

The Bank's results for the Annual financial year ended on 30 June 2023 are set out on page 9. The profit/Loss for the year has been transferred to retained earnings. The summarized results are presented below.

	30 June 2023 ETB	30 June 2022 ETB
Profit Income	337,574,108	6,850,446
Profit/(loss) before tax	24,142,936	(146,408,053)
Tax(Charge)/Credit	-	-
Profit/(loss) for the year	**24,142,936**	**(146,408,053)**
Other comprehensive income net of taxes	16,591,510	38,535,555
Total comprehensive income for the year	**40,734,446**	**(107,872,498)**

Management

The management who held office during the year and to the date of this report are set out on page 3.

Dr. Nasir Dino
Chairman, Board of Directors
Addis Ababa, Ethiopia

Melika Bedri
President/CEO

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Authorized Accountants and Auditors
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF ZAMZAM BANK SHARE COMPANY

TO - THE SHAREHOLDERS OF ZAMZAM BANK SHARE COMPANY

Opinion

We have audited the financial statements of ZamZam Bank Share Company, which comprise the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly in all material respects, the financial position of ZamZam Bank Share Company as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have no comments to make on the report of the Board of directors so far as it relates to these financial statements, pursuant to Proclamation No. 1243/2021 Article 348 of the Commercial Code of Ethiopia and recommend the approval of the accompanied financial statements by the shareholders of Zamzam Bank S.C.

Basis for Opinion

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

Key Audit Matters

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

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Information Other than the Financial Statements and Auditor's Report Thereon

Proclamation No. 1243/2021 of the Commercial Code of Ethiopia, Articles 348 and 349 requires us to submit to the general meeting our written comments on the report of the board of directors.

Those charged with governance of the bank are responsible for the report of the board of directors, which comprises financial and non-financial performance of the bank for the period, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the directors' report and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the directors' report identified above and, in doing so, consider whether the report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have obtained the directors' report before the date of this auditor's report.

If, based on the work we have performed on the directors' report, we conclude that there is a material misstatement of this report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and those Charged with Governance for the Financial Statements

Those charged with governance of the bank are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of the Company's report that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance of the bank 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 management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the company's report as a whole is 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 skepticism 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 Company's internal control.

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

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

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

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

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

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

Other legal and regulatory requirements

Proclamation No. 1243/2021 of the Commercial Code of Ethiopia, Article 349, No. 3 requires us to comment on the proposal for distribution of profits submitted by the directors of the bank.

The board of directors of the bank has not proposed profit to be distributed to shareholders as dividends in its report. As a result, we have nothing to comment in this regard.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Tesfa Tadesse, MSc, FCCA.

TAY Authorized
Accountants & Auditors

Addis Ababa
20 October, 2023

ZAMZAM BANK SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	30-Jun-23 Birr	30-Jun-22 Birr
INCOME			
Income from Financing and Investment	12a	337,574,108	6,850,446.30
Profit shared to Mudarabah Depositors		(8,066,225)	(338,268.34)
Net profit income		**329,507,883**	**6,512,178**
Other operating income	12b	187,305,589	34,069,605
Total operating income		**516,813,472**	**40,581,783**
EXPENSES			
Salaries and Benefits	13	295,957,232	94,448,343
Financing Impairment Charge		-	-
Impairment Losses on other assets		-	-
Depreciation		31,245,919	9,491,916
Other operating expenses	14	164,403,551	80,221,392
Audit fees		402,500	188,185
Director's related Expenses		661,333	2,640,000
		492,670,536	**186,989,836**
Profit(loss) before tax		24,142,936	(146,408,053)
Income tax expense		-	-
Profit (loss) after tax		**24,142,936**	**(146,408,053)**
Other comprehensive income (OCI) net of income tax			
Remeasurement loss on retirement benefits		(3,313,000)	-
Fair value gain of Equity Investments		19,904,510	38,535,555
Total Other comprehensive Income		**16,591,510**	**38,535,555**
Total comprehensive income for the period		**40,734,446**	**(107,872,498)**

Dr. Nasir Dino
Chairman, Board of Directors

Melika Bedri
President/ CEO

Signed on this date of 30 October 2023

NB- the notes from page 12 to page 56 are part of the financial statement

ZAMZAM BANK SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	30-Jun-23 Birr	30-Jun-22 Birr
ASSETS			
Cash and bank balances	7	1,534,679,037	1,426,990,918
Financing and investment	6a	3,584,764,933	689,105,913
Mark up profit receivable	6b	759,814,450	150,601,161
Investment securities:		-	-
- Equity Investments at FVOCI	6c	70,442,065	50,537,555
Investments Government Bond	8b	6,890,000	-
Other assets	8	224,141,110	62,014,466
Investment	8a	580,000,000	350,000,000
Property, plant and equipment	5	258,478,175	208,383,024
Right of use lease hold land	6e	161,593,925	-
Intangible assets	6	56,235,994	42,332,167
Right of use Asset	6d	256,706,923	176,923,325
Defferd tax Asset		-	-
Total assets		**7,493,746,611**	**3,156,888,528**
LIABILITIES			
Deposit from customers	9	4,980,509,321	1,586,167,125
Other liabilities	10	195,770,697	207,047,588
Leasehold land liability	10a	137,354,836	-
Unearned profit	10b	569,528,462	144,796,966
Total liabilities		**5,883,163,317**	**1,938,011,679**
EQUITY			
Paid up Capital	11	1,699,137,908	1,341,650,199
Other Resereve (OIC)	10c	55,127,065	38,535,555
Legal reserve	10d	6,035,734	-
Retained earnings		(155,331,814)	(166,923,306)
Regulatory Risk Reserve		5,614,401	5,614,401
Total equity		**1,610,583,294**	**1,218,876,849**
Total equity and liabilities		**7,493,746,611**	**3,156,888,528**

NB- the notes from page 12 to page 56 are part of the financial statement

ZAMZAM BANK SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Paid up capital	Legal reserve	Retained earnings	Regulatory Risk Reserves	Other Comprehensive Income	TOTAL
	Birr	Birr	Birr	Birr	Birr	Birr
Balance on 01 July 2021	**871,865,000**	-	**(20,515,253)**	**5,614,401**	-	**856,964,148**
Shares issued	469,785,199		-	-	-	469,785,199
Profit(loss) for the period	-		(146,408,053)	-		(146,408,053)
Other comprehensive income	-	-	-	-	38,535,555	38,535,555
Balance on 30 June 2022	**1,341,650,199**	-	**(166,923,306)**	**5,614,401**	**38,535,555**	**1,218,876,849**
Balance on 01 July 2022	**1,341,650,199**	-	**(166,923,306)**	**5,614,401**	**38,535,555**	**1,218,876,849**
Shares issued	357,487,709	-	-	-	-	357,487,709
Prior year adjustemnt	-	-	(6,515,710)	-	-	(6,515,710)
Profit(loss) for the period	-	-	24,142,936	-	-	24,142,936
Transfer to legal reserve	-	6,035,734	(6,035,734)	-	-	-
Other comprehensive income	-	-	-	-	16,591,510	16,591,510
Balance on 30 June 2023	**1,699,137,908**	**6,035,734**	**(155,331,814)**	**5,614,401**	**55,127,065**	**1,610,583,294**

ZAMZAM BANK SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED ON 30 JUNE 2023

	Notes	30-Jun-23 Birr	30-Jun-22 Birr
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/loss for the year		**24,142,936**	**(146,408,053)**
Adjustment for :		-	-
Prior year expense		(6,515,710)	300,615
Amortization Intangible asets		6,042,823	
Amortization ROU		50,016,783	
Depreciation Expenses		31,070,508	10,235,380
Net Cash In Flow Before Working capital change		**104,757,341**	**(135,872,057)**
(Increase) Decrease in financing and investments		(2,895,659,020)	(839,707,074)
(Increase) Decrease in other assets		(162,126,644)	(18,232,087)
Increase (Decrease) in deposits		3,394,342,196	1,578,623,482
Increase (Decrease) Mark up Profit Receivable		(609,213,289)	-
Increase (Decrease) in Unearned profit		424,731,496	144,796,966
Increase (Decrease) in other liabilities		126,077,946	180,615,571
Cash Generated From Operation		**382,910,025**	**910,224,801**
Profit tax Paid		-	-
Withholding Tax Paid		-	-
Net Cash flow from Operating Activities		**382,910,025**	**910,224,801**
CASH FLOW FROM INVESTING ACTIVITIES			
Mudarabah Investment		(230,000,000)	(350,000,000)
Equity investments		(19,904,510)	(50,537,555)
Acquisition on fixed assets		(81,165,659)	(206,382,821)
Investments Lease hold land		(161,593,925)	-
Investments Government Bond		(6,890,000)	-
Investment in right of use assets		(129,800,381)	(176,923,325)
Investment in intangible assets		(19,946,651)	(43,075,631)
Net cash inflow from Investing activities		**(649,301,126)**	**(826,919,332)**
CASH FLOW FROM FINANCING ACTIVITIES			
Regulatory risk reserve		-	5,614,401
Fair value adjustment on Investments		16,591,510	38,535,555
Collections from subscribed capital		357,487,709	469,785,199
Net cash inflow from financing activities		**374,079,219**	**513,935,156**
Net increase/decrease in cash and cash equivalents		**107,688,118**	**597,240,625**
Net and cash equivalents at beginning of the year		**1,426,990,918**	**829,750,293**
Cash and cash equivalents at end of the year		**1,534,679,036**	**1,426,990,918**

ΛMZAM BANK SHARE COMPANY
ɔTE TO THE FINANCIAL STATEMENTS
ɔR THE YEAR ENDED 30 JUNE 2023

General information

Zamzam Bank S.C. ("Zamzam Bank or the Bank") is a private commercial Bank that was established in 2020 in accordance with the provisions of the Commercial code of Ethiopia of and the Licensing and Supervision of Banking Business Proclamation 592/2008 and 1159/2019 to provide a Sharia compliant commercial banking service. As at June 30, 2023, the paid up capital of the Bank reached Birr **1.7 billion** contributed by over 12 thousand shareholders.

The bank is established to enhance financial inclusion with a special focus on the part of the society alienated from the financial system due to their religious beliefs or other factors. The bank is open to serve everyone that wants to follow its business model to demonstrate the impact of the sharia'h compliant system on the development of the country's economy.

Taking its name from ZamZam Holy Water springing from the hills of Safwa and Merwa; the Bank is working towards ensuring a sustained economic growth. The bank is going forward with the effort of expanding branches at the capital city and other parts of the country simultaneously by implementing digital solutions that have far-reaching impact to its cherished customers. ZamZam, as of June 30, 2023, has managed to open 75 Branches, and with its more than 664 employees recruited 266,394 customers.

ZamZam Bank offers an increasing range of sharia'h' compliant & all-inclusive products & services through its qualified human resource and a state of the art technology. The Bank is principally engaged in the provision of diverse range of financial services ranging from accepting deposits from the public and investment to a wide range of sectors that mainly includes manufacturing, import, export, construction, domestic trade, and transport areas.

ZamZam bank also performs trade services activities to facilitate the import and export process of the Country. Moreover, it facilitates local and international remittance activities through various partners. The Bank reaches its customers through various electronic banking channels.

The bank has acquired & implemented state of the art, fully sharia'h' compliant, and sharia'h certified Core Banking solution. Taking in to account its business growth and the future competition towards IT infrastructure, ZamZam has, in advance, concluded an agreement with the leading and internationally renowned Oracle and IBM companies. Accordingly, the bank is implementing various IT projects. In addition, it has crafted its five years strategy along with, policies, and procedures;

As a pioneer to the interest Free Banking in the country, the bank has shouldered historic responsibility in addressing legal and regulatory challenges in institutionalizing fully sharia'h compliant IFB; Accordingly, in an effort to create a conducive legal and regulatory environment, the bank is closely working with NBE and other stakeholders;

ZamZam bank has a sharia'h Advisory Council comprised of highly renowned Muslim Scholars in the country as well as internationally renowned expat advisor. ZamZam's board members with a proven track record and high level of expertise are leading and serving the Bank day and night. ZamZam is being led by a long serving renowned Banker, with a proven capacity of leadership, and highly qualified CEO. The two Vice Presidents and chief officers under the CEO are also well known long serving Bankers with a proven capacity in leadership. The ladder follows with multi-disciplinary and experienced Directors. Above all, ZamZam laid its foundation with its employees at all stage that are committed to serving the Bank's customers with provision of high quality service, commitment, and in a well-organized manner.

ZAMZAM BANK S.C.

TAY Authorized Accountants & Auditors

Original Copy Submitted to the board

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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

i) Statement of compliance

The financial statements for the year ended 30 June 2023 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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.

ii) Basis of measurement

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3

2.2.1 Going concern

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

2.2.2 Islamic Accounting Standard

As full fledge interest free banking, in addition to IFRS it will also apply the Islamic accounting standards set by Accounting and Auditing Organization for Islamic Financial institution (AAOIFI).

2.3 Foreign currency translation

a. Functional and presentation currency

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

b. Transactions and Balances

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.4 Recognition of income and expenses

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

b The bank generate profit income from murahabaha financing, investment, Commission, service charge and other incomes earned from domestic and international banking operation.Profit income and expense are recognized in profit or loss using the effective profit method. The 'effective PROFIT rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortized cost of the financial liability.

2.4.1 Net profit Income

a. Effective profit rate and amortized cost

When calculating the effective profit rate for financial instruments other than investment-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected investment losses. For investment-impaired financial assets, a investment-adjusted effective profit rate is calculated using estimated future cash flows including expected investment losses. The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability

b. The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected investmentloss allowance. The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected investmentloss allowance.

c. Calculation of profit income and expense

In calculating profit income and expense, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not investment-impaired) or to the amortized cost of the liability. However, for financial assets that have become investment-impaired subsequent to initial recognition, profit income is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer investment-impaired, then the calculation of profit income reverts to the gross basis. For financial assets that were investment-impaired on initial recognition, profit income is calculated by applying the investment-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit income does not revert to a gross basis, even if the investmentrisk of the asset improves.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

The bank collected the mudarabah investment accounts with a condition to invest primarily before other deposits. Therefore, it has basically used the ratio of effective account balance with the monthly average outstanding financing balance and used that ratio to multiply it with the total profit from financing in order to get the profit to be allocated to the Mudarabah account before the subtraction of the Mudarib fee.

Account class profit rate = (Total effective Account Class balance (Mudarabah)
Average financing for the period

Account class profit = Account class profit rate X TOTAL profit from financing

- Then after we found the account class profit, we have distributed the profit to the Mudarabah accounts as per there effective balance.

Individual account profit = (Effective ind.dep. Balance X Acc.class profit)
Total account class effective balance

Then mudarib fee is deducted from the individual account profit profit to be paid for depositors before deduction of tax.

(Individual account profit - Mudarib fee)

d. Presentation

The bank's profit income and expense presented in the statement of profit or loss and OCI include

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

profit income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. The profit income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

2.4.2 Fees and commission

Fees and commission income and expenses that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate. Other fees and commission income (for example, cash payment order (CPO), letter of investment(LC), letter of guarantee, etc) are recognized as the related services are performed.

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

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

2.4.3 Dividend income

This is recognized when the Bank's right to receive the payment is established, which is generally when the shareholders of the investee company approve and declare the dividend if and only if the income will generated from sharia'h compliant business operation.

ZamZam Bank

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.4.4 Foreign exchange revaluation gains or losses

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

2.4.5

Other income and expense- Other expenses are recognized when they are incurred by the Bank and other revenues recognized when they are earned which usually occurs simultaneously with cash collection.

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.

key measurement terms:

Fair value:- is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Transaction costs: Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortized cost: Is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued profit, and for financial assets less any write – down for incurred impairment losses.

The effective profit method: Is a method of allocating profit income or profit expense over the relevant period, so as to achieve a constant periodic rate of profit (effective profit rate) on the carrying amount. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future investmentlosses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument

i) Recognition and initial measurement

The Bank shall initially recognize Financing and investment, deposits, debt securities issued and financial liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) shall be recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

ii) Classification and subsequent measurement

a) Financial Assets

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Bank's debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

The Bank's debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI)

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

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

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

Business model assessment

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset

ZamZam Bank

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

The Bank shall make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

At initial recognition of a financial asset, the bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the bank has not identified a change in its business models.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis shall be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

Assessment of whether contractual cash flows are solely payments of principal and profit (SPPI)

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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

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

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

b) **Financial Liabilities**

The Bank shall classify its financial liabilities, other than financial guarantees and Financing commitments, as measured at amortized cost or FVTPL.

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

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

iii) **Impairment**

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

The Bank shall recognize loss allowances for expected investmentlosses (EIL) on the following financial instruments that are not measured at FVTPL:

- Financing and investment to customers;
- debt investment securities;
- Financing commitments issued; and
- financial guarantee contracts issued

No impairment loss shall be recognized on equity investments

a) **Impairment Model**

The Bank's allowance for investmentlosses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected investmentloss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on investmentdeterioration from inception. The allowance for investmentlosses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

The Bank adopts a three-stage approach for impairment assessment based on changes in investmentquality since initial recognition.

• Stage 1 – Where there has not been a significant increase in investmentrisk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected investmentloss is recorded. The expected investmentloss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

• Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected investmentloss based on the probability of default over the remaining estimated life of the financial instrument.

• Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for investmentlosses captures the lifetime expected investmentlosses.

b) **Assessment of significant increase in investmentrisk (SICR):**

At each reporting date, the Bank assesses whether there has been a significant increase in investmentrisk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. The common assessments for significant increase in investmentrisk(SICR) include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower etc.

The Bank adopts a multi factor approach in assessing changes in investmentrisk. This approach considers quantitative and qualitative indicators which are critical in allocating financial assets into stages.

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

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

—other financial instruments (other than lease receivables) on which investmentrisk has not increased significantly since their initial recognition

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

Life-time ECL is the ECL that results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not investment-impaired are referred to as 'Stage 2 financial instruments' and investment-impaired are referred to as 'stage 3 financial instruments'.

ZAMZAM BANK S.C.

TAY Authorized Accountants & Auditors
Addis Ababa, Ethiopia

Original Copy Submitted to the Board

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

c) **Measurement of Expected investmentLosses (ECL)**

Expected investmentLosses(EIL) is a probability-weighted estimate of investmentlosses. It shall be measured as the product of the probability of default (PD), exposure at default (EAD), and loss given default (LGD).

Default: The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in investmentrisk

The probability of default(PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs for stage 1.

Lifetime PDs – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9.

Exposure at Default(EAD)-The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit

Loss given default(LGD)-The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.

d) **Forward-looking information:**

The measurement of expected investmentlosses for each stage and the assessment of significant increases in investmentrisk considers information about past events ,current conditions as well as reasonable forecasts of future events and economic conditions. i.e., the estimation of forward-looking information.

Thus, macro-economic variables has been taken into consideration that includes inflation, exchange rate, Gross Domestic Product etc. and requires an evaluation of both the current and forecast direction of the macroeconomic cycle. Macro-economic variables considered having strong statistical relationships with the risk parameters (PD) used in the estimation of the ECLs, and are capable of predicting future conditions that are not captured within the base ECL calculations.

ZAMZAM BANK S.C.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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

In line with the expected, as well as experienced, Expected investmentLoss forward - looking volatility arising from the economic impact of the Covid 19 global crisis, the Bank has conducted, and overlaid, additional scenario analysis on the macroeconomic overlay model. This includes application of higher probability weights on the downside scenario, lower probability weights on the upside scenario, as well as stress tests on macroeconomic projections. The Bank continues to monitor the economic impact of Covid 19 on it's investmentrisk profile as well as forward - looking Expected investmentLoss estimates and shall update the same on it's IFRS 9 forward - looking estimates as and when significant changes in the overall macroeconomic environment are experienced.

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

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

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

The key drivers for investment risk for each of the Bank's economic sectors is summarized under 4.3.6-vii

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

e) **Restructured financial assets**

Where the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the Bank shall assess whether the financial asset should be derecognized and ECL are measured as follows:
— If the expected restructuring will not result in de-recognition 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 de-recognition 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 de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective profit rate of the existing financial asset.

f) **investment-impaired financial assets**

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

g) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL shall be presented in the statement of financial position as follows:
— for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
— for Financing 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 Financing commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
— for debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognized in the fair value reserve.

h) Write-off

Financings and debt securities shall be written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment shall be carried out at the individual asset level.

Recoveries of amounts previously written off shall be included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due

i) Non-integral financial guarantee contracts

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

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

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

iv) Derecognition

a) Financial assets

The Bank shall derecognize a financial asset when:

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI shall not be recognized in profit or loss on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Bank shall be recognized as a separate asset or liability.

b) **Financial liabilities**

The Bank shall derecognize a financial liability when its contractual obligations are discharged or cancelled, or expire

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

a) **Financial assets**

If the terms of a financial asset are modified, then the Bank shall evaluate whether the cash flows of the modified asset are substantially different

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognized and a new financial asset shall be recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:
— fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs shall be included in the initial measurement of the asset; and
— other fees are included in profit or loss as part of the gain or loss on derecognition

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms.
If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it shall first consider whether a portion of the asset should be written off before the modification takes place

Where the modification of a financial asset measured at amortized cost or FVOCI does not result in de-recognition of the financial asset, then the Bank shall first recalculate the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and shall be amortized over the remaining term of the modified financial asset

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

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

Where the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability shall be recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognized in profit or loss. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective profit rate on the instrument

vi) **Offsetting**

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

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

vii) **Designation at fair value through profit or loss**

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

b) **Financial liabilities**

The Bank shall designate certain financial liabilities as at FVTPL in either of the following circumstances:
— the liabilities are managed, evaluated and reported internally on a fair value basis; or
— the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Viii) **Collateral valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as buildings(commercial or residential), machineries, motor vehicle, share certificate etc., . The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule.

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

iX) **Collateral repossessed**

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

ZAMZAM BANK S.C.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.6 Cash and Cash Equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.7 Property, plant and Equipment

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

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values starting from the asset is avilaible for use over their estimated useful lives, as follows:

Asset class	Useful Lives	Residual Value
Right of Use Lease-hold land	Lease term	
Buildings	50	5%
Computer hardware	7	1%
Furnitures and fittings	10	1%
Equipments	5 to 20	1%
Lifts	15	5%
Motor Vehicles	10	5%

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

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.8 *Depreciation and carrying value of property, plant and equipment*

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

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in income statement in the period in which the expenditure is incurred .

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate item in the income statement.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, which ranges from two to six years.

2.10 Non-current assets (or disposal groups) held for sale

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

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

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. profit and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.11 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 mastercard, receivables from visa card and other receivables from debtors. This has been added to the the carrying amounts of the investment.

(C) ***Prepaid staff asset(benefits)***

The bank has provided loans to its employee at below market rate. Under IFRS, such loans shall be recognized at their fair value on the initial inception date. Accordingly, the fair value of employee loans below market rate are determined as the present value of future cash receipts(installment payments)using the prevailing market rate of interest as the discounting factor. The market rate is determined as what if the employee has been charged to access similar loans from other banks and determined by the Ethiopian Bankers' Association

2.12 Fair value measurement

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

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

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

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

2.13 Employee benefits

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

(a) Defined contribution plan

The Bank operates two defined contribution plans;
i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation
715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;
ii) provident fund contribution, funding under this scheme is 6% and 12% by employees and the Bank respectively based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

(b) Defined benefit plan

The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit investmentmethod.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit investmentmethod. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.
The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.
Past-service costs are recognised immediately in income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or investmented to equity in other comprehensive income in the period in which they arise.

(b) *Defined Benefit plans*

The Bank recognizes the liability for for severance and other long service awards based on acturail requirments that set assumptions for salary increases, inflation, discount rates, turnover, mortality and others.

Retirement Benefit Obligation

Severance benefit plan

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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. 494/2006. Employees who have served the Bank for 5 years and above and are below the retirement age (i.e. has not met the requirement to access the pension fund) 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.

2.14 **Liability recognized in the financial position**	**30-Jun-23 ETB**	**30-Jun-22 ETB**
Severance pay	4,398,000	-
	4,398,000	-
Income statement charge included in personnel expenses:		
Severance benefit plan	4,398,000	-
	4,398,000	-

2.14.1 **The principal assumptions used in determining defined benefit obligations**

	30-Jun-23	**30-Jun-22**
Discount rate (p.a)	24.7%	20.7%
Inflation Rate	17.3%	15.1%
Long term salary increases (p.a)	19.3%	17.1%
Net pre-retirement rate	**4.5%**	**3.1%**

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.

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.

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 Male ETB	**Female ETB**
20-24	0.31%	0.22%
25-29	0.30%	0.23%
30-34	0.36%	0.31%
35-39	0.41%	0.28%
40-44	0.32%	0.32%
45-49	0.45%	0.43%
50-54	0.63%	0.63%
55-60	0.98%	0.98%
60 and above	1.54%	1.54%

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

iv. Withdrawals from service

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

	30-Jun-23
	Male
20-24	15.00%
25-29	12.50%
30-34	10.00%
35-39	7.50%
40-44	5.00%
45-49	2.50%
50 and above	0.00%

2.14.2 Risk exposure

Through its post-employment benefit schemes, the Bank 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.

Sensitivity of the Results

	Base DBO ETB'000	DBO on changed assumptions ETB'000	% change
Sensitivity	4,398	4,087	-7.10%
Discount rate +1%	4,398	4,735	7.70%
Discount rate -1%			
Salary increase +1%	4,398	4,742	7.80%
Salary increase -1%	4,398	4,075	-7.30%

2.15 Provisions

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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.

2.17 Earnings per share

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

2.18 Leases

The Bank has initially adopted IFRS 16 from 1 July 2019. The standard eliminates the classification of leases as either operating leases or finance leases under IAS 17 and introduces a single lease accounting model that requires lessees to recognize assets and corresponding liabilities. Due to the transition method chosen by the Bank in applying IFRS 16, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

2.19 Dividend

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ethiopian legislation identifies the basis of distribution as the current year net profit.
Dividend distribution to the Bank's shareholders is recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

It also elected to apply the practical expedient that allows entities to rely on its assessment of whether leases were onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.

The effect of initially applying IFRS 16 is mainly attributed to:

_ an increase in non-current assets as obligations to make future payments under leases previously classified as an operating lease were recognized on the balance sheet, along with the corresponding asset: right-of-use asset.

_ Expenditure on operation has decreased and finance cost have increased, as operating lease costs have been replaced by depreciation and profit expense on lease liabilities.

The adoption of IFRS 16 requires the Bank to make a number of assumptions, estimations and judgments that includes:

_ lease liabilities were determined based on the value of the remaining lease payments, discounted by an appropriate incremental borrowing rate.

_ term of each arrengment was based on the original lease term.

_ The discount rate used to determine lease liabilities was the Bank's incremental borrowing rate. It was calculated based on observable inputs.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

At the commencement date, the Bank recognized:

_ all leases as right right-of-use-asset at cost. Cost of right-of-use asset includes the amount of lease liability, lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

_ a lease liability at the present value of the lease payments that are not paid at that date. Present value of lease payments will be determined by discounting future lease payments at the profit rate implicit in the lease arrangement, if it is readily determined or at Bank's incremental borrowing rate.

After the commencement date, the Bank masures:

Profit incurred on lease liability will be recognized in the statement of profit and loss as a finance cost.

Determination of whether an arrangement is a lease, or contains a lease

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Bank as a Lessor

The Bank has rented temporary freehold space in its headoffice building that is manainly constructed for office use. The lease advance payments are recognized as deferred income until recognized.

2.20 **Income taxation**

(a) ***Current income tax***

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

(b) Deferred tax

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

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

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

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

Deferred tax assets and liabilities are only offset when there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.
Other disclosures relating to the Bank's exposure to risks and uncertainties includes:
• Capital management
• Financial risk management and policies
• Sensitivity analyses disclosures

i) Judgements

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

i)Classification of financial asset : assessment of the business model within which the asset are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test . The Bank determines the business model at a level that reflects how Groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a respective change to the classification of those assets

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

ii) Establishing the criteria for the determining whether credit risk on the financial asset has increased significantly since initial recognition. As explained in note 2.5, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

iii) Determining methodology for incorporating forward locking information in to measurement of expected credit loss

ii) **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 Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

iii) ***Impairment losses on finaincing and receivables***

The Bank reviews its financing portfolios for impairment on an on-going basis. The Bank first assesses whether objective evidence of impairment exists . Impairment provisions are also recognized for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the Financial risk management section.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and profit rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

iv) ***Fair value measurement of financial instruments***

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. There are no financial instruments currently measured at fair value except investment on equity. See note 4.8.2 for further discussion on fair value disclosures of financial instruments.

v) ***Defined benefit plans***

The cost of the defined benefit pension plan, and the present value of these defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

vi) ***Depreciation and carrying value of property, plant and equipment***

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

vii) ***Impairment of non-financial assets***

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

3.1 ***Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

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

3.2 ***Development cost***

The Bank capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The development costs that were capitalized by the Bank relates to those arising from the development and upgrading of software

3.3 ***Foreign currency denominated balances***

	30 June 2023	30 June 2022
	Birr	Birr
Cash and bank balances;		
USD	120,144	204,545.00
GBP	605	40.00
Euro	48,240	20.00
SAR	5,826	
AED	1,820	
CAD	2,150	
	178,785	**204,605**

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

3.4 **Employees**

The total number of persons employed by the Bank during the year was as follows:

	30 June 2023 Number	30 June 2022 Number
Total staff	664	396

4 **Events after reporting period**

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2023 and on the profit for the year ended on that date, which have not been adequately provided for or disclosed.

4.1 ***Key management compensation***

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2023.

	30 June 2023 Birr	30 June 2022 Birr
Salaries	15,635,112	7,760,120
Other employee benefits	4,104,000	4,555,280
	19,739,112	12,315,400

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

5 Property plant and equipments

	Equipments Birr	fittings Birr	equipments Birr	Vehicles Birr	Total Birr
Cost:					
As at 1 July 2022	**22,593,938**	**33,453,969**	**111,353,826**	**50,792,990**	**218,194,724**
Additions As of June 30 2023	38,450,593	36,485,763	5,776,291	453,012	81,165,659
Disposals	-	-	-	-	-
Reclassification	-	-	-	-	-
As at 30 June 2023	**61,044,531**	**69,939,733**	**117,130,117**	**51,246,002**	**299,360,383**
Depreciation					
As at 1 July 2022	**(1,845,369)**	**(2,278,282)**	**(3,173,796)**	**(2,514,253)**	**(9,811,700)**
Charge for the year 2023	(5,028,787)	(5,206,739)	(15,795,264)	(5,039,718)	(31,070,508)
Disposals	-	-	-	-	-
As at 30 June 2023	**(6,874,156)**	**(7,485,021)**	**(18,969,060)**	**(7,553,971)**	**(40,882,208)**
Net book value	**54,170,375**	**62,454,711**	**98,161,057**	**43,692,031**	**258,478,175**

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

	Purchased software Birr	Software under development Birr	Total Birr
6 Intangible Assets			
As at 1 July 2022	**42,332,167**	**-**	**42,332,167**
Acquisitions	19,946,651	-	19,946,651
Amortization	(6,042,823)		(6,042,823)
Adjustments/Transfers to intangible assets	-	-	-
As at 30 June 2023	**56,235,994**	**-**	**56,235,994**

	30-Jun-23 Birr	30-Jun-22 Birr
6a Financing and investment to customers		
Murabahah Revolving facility	217,570,444	60,658,127
Murabahah Merchandise facility	28,193,680	-
Murabahah Pre-shipment export financing facility	635,165,145	115,757,900
Murabahah Presonal housing financing	136,504,991	-
Murabahah Term financing	2,468,459,421	496,704,931
Murabahah Personal automobile financing	26,570,643	-
Murabahah Staff personal housing	9,450,154	-
Murabahah Staff personal automobile	29,021,209	-
Murabahah Personal staff financing	15,720,201	-
Emergency staff financing (IFRS)	(3,031,577)	(1,605,657)
Qard al-hssen emergency staff financing	40,410,519	18,473,617
Qard for foreign employment agency	10,847,720	-
Less: Provision for financing and investment as per IFRS	(30,117,617)	(883,004)
	3,584,764,933	**689,105,913**

6b Less: Provision for financing and investment as per IFRS	30-Jun-23 Birr	30-Jun-22 Birr
Accrued profit receivable from murabahah revolving facility	11,120,700	4,512,484
Accrued profit receivable from murabahah merchandise facility	3,101,305	-
Accrued profit receivable from murabahah pre-shipment export financing	16,862,851	2,355,158
Accrued profit receivable from murabahah personal housing financing	48,204,767	-
Accrued profit receivable from murabahah term financing	645,633,598	143,733,518
Accrued profit receivable from murabahah motor vehicle financing	11,342,978	-
Accrued profit receivable from murabahah Staff personal housing	9,735,533	-
Accrued profit receivable from murabahah staff personal automobile fina	11,815,561	-
Accrued profit receivable from murabahah personal staff financing	1,997,156	-
	759,814,450	**150,601,161**

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

	30-Jun-23 Cost Birr	Fair value Adjustment	30-Jun-22 Birr
6c Investment Securities			
Equity Investment securities at FVOCI	38,535,555		38,535,555
Ethio switch	12,002,000	19,904,510	12,002,000
	70,442,065	**19,904,510**	**50,537,555**

6d Right of Use Asset

	30-Jun-23 Birr	30-Jun-22 Birr
Cost		
Opening Balance	**176,923,325**	
Additions	129,800,381	204,410,596
Lease Amortization	(50,016,783)	(27,487,271)
Adjustments	-	-
Closing Balance	**256,706,923**	**176,923,325**

6e Lease hold land	30-Jun-23 Birr	30-Jun-22 Birr
		-
As at 1 July , 2022	-	-
Advance/down payment during the year	24,239,089	-
Accumul;ated Amortizations	-	-
Lease hold land liability	137,354,836	-
As at 30 June , 2023	**161,593,925**	-

The bank aquired a 4,135m2 of land obtained through lease for 30 years from Addis Ababa City government Administration in Addis Ababa at Lideta sub-city on a 30 year lease bases. The total cost of the holdland was 161,593,925which shal be amorized over thirty years. The bank has paid Birr 20,374,300.74 (15%) as down paymentThe remaining Birr 137,354,836.45 will be paid over 30-years from July 10 2025 after a grace period of two years with annuar regular installment of Birr 4.578,494.55 and accrued interest thereoff at 11.5% per annum.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Tele birr wallet payable	938,692	-
Interbranch payable	(1,162,184)	3,354,711
Accrued severance payable	4,398,000	-
Lease liability	35,118,080	32,750,541
Unearned income on guarantees	1,888,075	1,366,470
Unearned income top up air time	25,000	-
Unearned income- commission on letter of guarantee	108,477	-
Claim for Ho and branches	-	3,407,373
	193,801,437	**205,898,776**
Other liabilities	**195,770,697**	**207,047,588**

10a Leasehold land liability	**30-Jun-23** **Birr**	**30-Jun-22** **Birr**
Lease hold land liability	137,354,836	-
	137,354,836	-

The bank has not recognised yet the preoperating expenses as per the requirment of the tax proclamation due to approval not completed by NBE as at the reporting date. However a total of birr 20,515,253.33 loss has been brought forward and included in the accounts of the current period.

10b Unearned profit	**569,528,462**	**144,796,966**

This represents profit margin accured on financings that will be collected in the future

Maturity analysis		
Current	128,143,904	26,432,016
Non-Current	441,384,558	118,364,950
	569,528,462	**144,796,966**

ZAMZAM BANK S.C.

TAY Authorized Accountants & Auditors
011 442 1336
091 151 5039
093 001 4106
Addis Ababa, Ethiopia

Accounting and Auditing Board of Ethiopia
Original Copy Submited to the board
0118861296
0111541235

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

10c Other Reserve

The other reserve includes the fair value gain/loss on equity instruments classified at FVOCI and

	30-Jun-23	30-Jun-22
	Birr	Birr
Opening Balance	38,535,555	-
Reclassification of defined Benefit plan	(3,313,000)	-
Fair Value gain of Equity Instruments	19,904,510	38,535,555
Remeasurement loss on defined beefit plans(net of tax)	-	-
	55,127,065	38,535,555

	30-Jun-23	30-Jun-22
	Birr	Birr
10d Legal Reserve		
At the beginning of the year	-	-
Transfer from profit or loss	6,035,734	-
At the end of the year 2023	6,035,734	-

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

	30-Jun-23	30-Jun-22
	Birr	Birr
10e Retained earning		
At the beginning of the year	(166,923,306)	(20,515,253)
Prior year adjustment	(6,515,710)	
Transfer from profit or loss	24,142,936	(146,408,053)
Transfer to legal reserve	(6,035,734)	-
At the end of the year 2023	(155,331,814)	(166,923,306)

	30-Jun-23	30-Jun-22
	Birr	Birr
10f Regulatory risk reserve		
At the beginning of the year	5,614,401	5,614,401
Transfer from profit or loss	-	-
At the end of the year 2023	5,614,401	5,614,401

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

	30-Jun-23	30-Jun-22
11 Share capital	Birr	Birr
Subscribed	-	-
Ordinary shares of Birr 1000 each	1,683,651,000	1,683,651,000
Issued and fully paid:		
Ordinary shares of Birr 1000 each	1,699,137,908	1,341,650,199
Share premium	-	-

	30-Jun-23	30-Jun-22
12a Income	Birr	Birr
Income from Financing and Investment	**337,574,108**	**6,850,446**
12b Other operating income		
Income from Investment	94,203,306	32,755,114
Commisiom and service Income	38,893,492	368,013
Other Income	54,208,792	946,479
	187,305,589	**34,069,605**

	30-Jun-23	30-Jun-22
13 Salary and benefit	Birr	Birr
Professional staff salaries	139,943,719	52,275,306
Contract staff salaries	55,022,522	6,119,713
Hardship allowance	863,538	-
Housing allowance	20,082,827	8,756,697
Representation allowance	1,554,355	1,559,797
Transportation allowance	58,083,527	18,321,484
Leave pay expense	(1,652,772)	230,258
Cash indemnity allowance	341,504	40,206
Overtime professional staff	346,621	-
Special allowance	626,808	286,294
Pension contribution	15,106,667	5,461,778
Medical expense	1,934,377	614,665
Training & education	-	388,308.65
Mobile allowance	147,519	122,555
Staff benefit expense	3,556,021	271,280
	295,957,232	**94,448,343**

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

14 Other operating expenses

	30-Jun-23	30-Jun-22
	Birr	Birr
Advertisement and promotion	4,289,735	6,064,605
Amortization expense	17,510,210	743,464
Per - diem & travel expense	1,892,010	806,373
Petrol and oil	1,902,064	515,918
Bank forms	4,518,287	1,296,045
Cleaning supplies	79,677	332,462
Consultant fee	2,371,119	1,975,088
Correspondent bank charges	1,132,757	173,566
Donations and contributions	4,714,663	585,000
Water and electricity bill	190,010	65,604
Entertainment	715,798	769,371
Inauguration	233,040	1,203,795
Land and building tax	-	2,460
Legal	345	-
Maintenance & repairs - computer	59,927	1,119,498
Maintenance & repairs - equipment & furniture	283,532	389,555
Maintenance & repairs-motor vehicle	536,505	204,946
Maintenance & repairs - premises	317,256	2,239,342
Membership fees	200,000	
Money insurance	188,311	-
Money transfer charges - local	1,096,550	-
Motor vehicle. Insp. & circ. Fees	-	22,222.22
Municipal sanitation fees & taxes	52,000	3,000
License fee	193,100	144,390
Postage	64,355	15,053
Property insurance	627,010	985,850
Stationery	5,306,705	4,399,895
Subscription	218,478	324,410
Telephone	334,149	225,822
Transportation	3,212,475	5,222,023
Wages	1,203,271	4,560,070
Swift	442,463	243,950
Internet and broad band fee	3,083,176	1,118,995
Bad debt expense - for financing	23,323,034	6,915,946
It support charges	5,712,198	782,250
Stamp duty expense	667,198	803,013
Penalty expense	20,956	1,706,570
Funeral expenses	1,000	1,300
Uniforms	8,873	677,435
Sundries	731,338	841,080
Fixed asset below 1000	278,066	374,734
Business events and meetings expense	775,335	2,229,367
Bad debt expense - for receivable	2,878,585	21,584
Loss on forgn.exc.valuation	9,581,143	232,428
Prior year expense	5,027	300,615
General annual meeting	2,761,322	-
Rtgs procesing expaense	1,072,015	-
System implementation expense	1,761,803	-
Training & education	1,408,374	-
Ethswitch charges	326,183	-
E-banking support charges	602,064	-
A2a service charge expense	314,736	-
Service charge	100	-
Atm card cost	1,735,900	-
Depreciation for right use of asset	50,016,783	27,487,271
Profit expense on lease liability/retained earning	2,367,539	2,095,026
Profit expenses on post employment benefit	600,000	-
Accured severance pay expense	485,000	-
Other opoerating Expense	**164,403,551**	**80,221,392**

ZAMZAM BANK SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

15 Prudential presentation

	30-Jun-23	30-Jun-22
Financing	**Birr**	**Birr**
Total impairment on Financing and Investment based on IFRS	25,296,129	6,915,946
Total impairment on Financing and Investment based on NBE Requirement	39,115,231	883,004
Variation(Amount transferred to Regulatory Risk Reserve)	**(13,819,102)**	**6,032,942**
Other Assets		
Impairment on financing and investment based on IFRS for the period	2,900,170	440,125
Impairment on financing and investment based on NBE Requirement for the period	511,538	21,584
	2,388,632	418,541
Total transferred to Regulatory risk reserve	**(16,207,735)**	**5,614,401**

16 Related party transaction

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

	Nature of relationship	30-Jun-23 Birr	30-Jun-22 Birr
Transactions with related parties			
Financing and Investment	Board Member	181,510,000	149,640,000
Remenuration fee	**Board Member**	661,333	2,640,000
		182,171,333	152,280,000

17 Contingent liabilities

The Bank conducts business involving issuance of various bid bond, performance bonds and advance payment guarantees. These instruments are given as a security to support the performance of a customer to third parties. The Bank also issued letter of credit facilities to importers, whcih created committment to the Bank to settle the obligation in foreign currency when the L/C documents are clearly presented to the Bank and recover the amount from custmers in local currency. As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.
The table below summarises the fair value amount of contingent liabilities for the account of customers:

Claims and litigation
The Bank is not a party to any legal actions brought by any person as at the reporting date

Guarantees and letters of credit

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

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

	30-Jun-23 Birr	30-Jun-22 Birr
Guarantees issued and outstanding	139,860,154	-
Letter of credit net of margin paid	49,175,664	-
Letters of credit	152,248,024	8,242,021

18 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at30-Jun-22and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

1 Financial risk management

1.1 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 investment /financing risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.
The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

1.2 Risk management structure

The Board of Directors (The Board) is responsible for the overall risk encountered by the Bank. The Board is responsible to approve comprehensives risk management program and policies of the Bank. The Board has an oversight role on the proper implementation of the Bank's risk management program or policies. The Board monitors proper implementation policies through various reports.

The Senior Management has the overall responsibility for the proper execution and interpretation of the risk strategy and implementing principles, frameworks, policies and limits. It is also responsible for managing risk decisions and monitoring risk levels and deliberate on reports to the Board regarding risk management issues and give timely directions.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures, independently assesses and monitor the level of risk assumed by the Bank. Besides, the Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. It carries out an assessment of risk on periodic basis to monitor the Bank's overall risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. Exceptions are reported, where necessary, to the Board's Risk Committee and the relevant actions are taken to address exceptions and any areas of weakness. The unit works closely with the Management Risk Committees to ensure that procedures are compliant with the overall framework. The unit is functionally responsible to the Board. The risk management has also reporting relationship with internal audit function. Internal audit function among others ensures the effectiveness of the risk management function periodically. Internal Audit Function discusses the results of its assessments with management, and reports its findings and recommendations to the Board Audit Committee.

ALCO (Asset & Liability Managmnet Committee) is responsible for managing the Bank's financial assets, financial liabilities and the overall financial structure.

1.3 Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances

1.4 Risk mitigation

The Bank uses various risk mitigating techniques to reduce it's risk to the level acceptable. Risk controls and mitigants,

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ZAMZAM BANK S.C.
TAY Authorized Accountants & Auditors

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

1.5 Financing risk

Financing 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 financing and investment, financing commitments arising from lending activities, credit enhancement provided such as financial guarantees and letter of credit.

The Bank adopts a conservative approach to credit risk. Where appropriate, the Bank intervenes in the economy and provides guarantees in the financial system to prevent systemic risk.

1.6 Investment/Financing risk exposure

i. **Maximum exposure to credit risk before collateral held or credit enhancements**

The Bank's maximum exposure to credit risk at 30 June 2023, is preesnted as follows

	30 June 2023	30 June 2022
	Birr'000	Birr'000
Cash and bank balances	1,534,679,037	1,426,990,918
Financing to customers	3,589,586,421	689,105,913
Investment securities:	70,442,065	50,537,555
- Investment in Equity held though OCI	-	-
- Investment in security designated at amortized cost	-	-
Other assets	983,955,560	212,615,627
	6,178,663,083	2,379,250,013
Credit risk exposures relating to off balance sheets are as follows:		
Guarantees issued and outstanding		
Fināincng commitments		
Letter of credit and other credit related obligations	152,248,024	8,242,021
Total maximum exposure	6,330,911,107	2,387,492,034

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

2 Liquidity risk

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.1 Management of liquidity risk

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

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

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

* Represents assets that are not pledged but the Bank believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but the Bank would not consider them as readily available to secure funding in the normal course of business.

2.2 Market risk

Market risk is defined as the risk of loss risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions.

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

2.3 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.

2.4 Management of market risk

Market risk is monitored by the risk management department on regularly, to identify any adverse movement in the underlying variables.

(i) Foreign exchange risk

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.5 Capital management

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

2.6 Capital adequacy ratio

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

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

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

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. The Bank's capital includes issued and fully paid share capital, legal reserves and other reserves to be approved by the National Bank of Ethiopia. However, any balance, should be netted off against the total risk weighted assets.:

- Tier 2 capital includes qualifying subordinated liabilities and certain provisions for loan losses that are presently unidentified on an individual basis.

	30 June 2023 Birr	30 June 2022 Birr
Capital		
Share capital	1,699,137,908	1,341,650,199
Share premium	-	-
Retained earnings	(151,074,210)	(166,923,306)
Legal reserves	(5,591,201)	-
	1,542,472,497	1,174,726,893

3 Fair value of financial and non financial instruments

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

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

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

3.1 Valuation models

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

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data.
In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

3.2 Financial instruments not measured at fair value

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

	30 June 2023			30 June 2022	
	Carrying amount Birr'000		Fair value Birr'000	Carrying amount Birr'000	Fair value Birr'000
Financial assets					
Cash and bank balances	1,534,679,037		1,534,679,037	1,426,990,918	1,426,990,918
Financing and investment	3,589,586,421		3,589,586,421	689,105,913	689,105,913
Investment securities	12,002,000		70,442,065	12,002,000	50,537,555
Other assets	983,955,560	-	983,955,560	62,014,466	62,014,466
Total	6,120,223,018	-	6,178,663,083	2,190,113,298	2,228,648,853

ZAMZAM BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

3.3 Fair value methods and assumptions

Financing to customers

Loans and advances to customers are carried at amortised cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

3.3.1 Valuation technique using significant unobservable inputs – Level 3

The Bank has no financial asset measured at fair value on subsequent recognition.

3.3.2 Transfers between the fair value hierarchy categories

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

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CORPORATE SOCIAL RESPONSIBILITY (CSR)

AWARENESS CREATION

AWARENESS CREATION

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