



ዓባይ ባንክ
Abay Bank

ANNUAL REPORT 2019/20

For the year ended 1 June, 2020



10 የስኬት ዓመታት ብታመኝነት! | 10 YEARS OF TRUSTWORTHY SERVICE!

በመቆጣጠሉ ራሱ ይቃኝ
ሰውን ያድርጉ!

SAVE AND
ACHIEVE ...!



ግብይ ባንክ
Abay Bank

ግብይ - ታማኝ አገልጋይ !

Abay: The Trustworthy Bank !

Tel +251 11 515 8961, +251 11 554 9735

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Ziquala Complex, Jomo Kenyatta Avenue,
ADDIS ABABA, ETHIOPIA

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10 የሰነድ ዓመታት ብታማኝነት!
10 YEARS OF TRUSTWORTHY SERVICE!





VISION

To become a premium Bank!

MISSION

We are committed to satisfy the expectation of stakeholders by providing full-fledged banking services through deploying state-of-the-art technology and competent human resource.

CORE VALUES

Abbreviated as 'CITIES', the core values of the bank are:

- ❖ Customer satisfaction,**
- ❖ Integrity,**
- ❖ Team work,**
- ❖ Innovation and scaling up,**
- ❖ Employee satisfaction and**
- ❖ Social responsibility.**





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Board of Directors



Amlaku Asres (PhD)
Vice Chairperson



W/ro Ethiopia Tadesse
Board Chairperson



Ato Biyazin Enkuahone
Board Member



Ato Fantu Gola
Board Member



Ato Mekonnen Yelewemwessen
Board Member



Ato Mulat Tsega
Board Member



Ato Tadesse Assefa
Board Member



Ato Teshager Desalegn
Board Member



Ato Tilaye Bitew
Board Member



Top Management



Ato Yehuala Gessesse
Chief Executive Officer



Ato Abraham Ejigu
Chief Corporate Banking Officer



Ato Belete Kene
Chief Corporate Services Officer



Ato Belete Dagnew
Chief Retail Banking Officer



Ato Wondifraw Tadesse
Chief Strategy and Marketing Officer



Ato Abebaw Abebe
Director - Customer Relationship
Management



Ato Abubeker Nezir
Director -Interest
Free Banking



Ato Adugna Abebe
Director -Branch Operations and
Resource Mobilization



Ato Ayalkbet Amdemariam
Director -Human Capital
Management



Ato Christian Kassa
Director - Marketing and
Research



Ato Dawit Ayenew
Director - Internal Audit



Ato Daniel Legesse
Director - Strategy and
Innovation



Ato Desalegn Ayalew
Director - Finance



Ato Elias Berhanu
Director - Information
Technology



Ato Endakmew Getnet
Director - Legal Services



Ato Eriste W/Mariam
Director - Digital Banking



Ato Eyob Nigusie
Director - Procurement &
Property Management



Ato Solomon Tefera
Director - Credit Analysis, Workout and
Portfolio Management



Ato Tsega Mekonen
Director -Risk Management
& Compliance



W/ro Tsige Ayalew
Director -International Banking



Board Chairperson's Message

Honorable Shareholders,



On behalf of the Board of Directors, it gives me great pleasure and sense of pride to present the bank's Annual Report for the financial year concluded on June 30, 2020, while celebrating the Bank's 10th year anniversary.

May I take this opportunity to congratulate everyone for the success we have achieved in the last ten years since this institution

was established, as we look forward to many more years of astounding performance.

The year under review was marked by significant global and domestic developments which impacted our business in several ways. Despite the COVID-19 pandemic and its impact on business slowdown, intense and growing competition in the sector, the performance of the bank remained commendable.

For the Bank, total deposits and outstanding loans grew by 39% and 52%, respectively from the last year's record. Similarly, the paid-up capital of the bank has grown by 30% and attained its annual target of Birr 2.2 billion. Subsequently, the Bank's total Capital soared up by 26% from last year's position and attained a balance of Birr 3.1 billion reflecting commensurable balance sheet status. During the year, revenue grew by 14 % from last year and the bank has registered a profit before tax of Birr 640 million.

In the non - financial spectrum, the Bank achieved substantial results. Thanks to the coordinated effort of all the players, the Bank acquired an additional plot of land adjacent to our current landholding in Addis Ababa. The total area we own matches our ambition to build iconic Head Quarters and the review of the design work to upgrade it further by scale and quality is well under progress. The bank has also considered the option of acquiring assets through the purchases of buildings after conducting a thorough analysis of its feasibility. In this regard, the bank has acquired a mixed-use building, known as Quara Hotel building, in Gondar city.

The Board has taken actions to fast track fundamental changes ensuring sustainable and profitable growth

through excellence in operations, technology, and customer experience. The Board also believes that having an engaged and motivated workforce and a sound governance and risk management are pivotal to attaining the sustainable profit and growth that the Bank aspires. In light of these, the Board revised the five years strategic plan of the bank based on the results of the mid-term review. A new organizational structure to enable the implementation of the revised strategy is put in place. The bank has finalized the upgrading of the Core Banking System to the state-of-the-art version and subsequently made digital banking services more reliable than ever before. Besides, the bank's risk management program and audit charter have been revised and implemented, thereby instituting a strong internal control system.

As a well-diversified business underpinned by historically-stable revenue generation and significant capital strength, Abay has registered a notable financial and non-financial performance. The board of directors continues making its utmost effort to strike a balance between robust growth and sustainability to deliver on long-term value to stakeholders. In doing so, the board is determined to follow-up on the execution of the strategic plan along with the recommendations forwarded based on the findings of the Mid-Term Review of the bank's strategic plan, to take measures that would strengthen corporate governance and institutional capabilities, strengthen risk management frameworks and internal control systems.

With the new fiscal year, the Board of Directors, the Management, and the entire staff of Abay Bank S.C. will continue to accelerate its transformation and seize opportunities to capture more market shares through business innovation and increased efficiency. We will continue to embark on the construction of the bank's headquarters and regional office buildings, conduct aggressive resource mobilization while rendering personalized financial services.

Finally, these achievements would not have been possible without the commitment of the management and the dedication of the Bank's staff, the continued support and trust of our esteemed customers, and the strategic leadership and guidance of the National Bank of Ethiopia and other stakeholders. On behalf of the Board of Directors and my own behalf, I would like to express my deepest gratitude and appreciation to all of you and count on your continued support.

Thank you,

Ethopia Tadesse
Chairperson, Board of Directors





Chief Executive Officer's Message

Dear Shareholders,



It is with great pleasure that I would like to give a brief summary of Abay Bank's Annual performance for the year ended June 30, 2020.

The undergoing national socio-economic reforms on the one hand, the spread of the corona virus which has become the global health, political and economic issue on the other hand, constitute the two primary-

phenomenon of the year impacting Abay Bank in particular and the banking system in general. Coupled with these factors, shortage of foreign currency, fierce competition in resource mobilization, up surging of inflation and market slowdowns, were the features characterizing the domestic economy for the year under review.

Despite the prevalence of the above-mentioned unfavorable conditions, Abay Bank has registered remarkable resilience in dealing with the intricate circumstances. Loans and advances grew by 52% from last year while Deposit and Revenue gone-up by 39% and 14%, to reach Birr 11.8 billion, 16.1 billion, and 2.1 billion, respectively. In another key performance indicator, the total capital and asset of the Bank reached Birr 3.1 billion and 20.2 billion improved by 26% and 34%, from their respective records of the preceding year.

In addition, the Bank continued to expand its service outlets to increase its accessibilities to the public and meet the various demands of its customers. In this effort, the Bank opened 31 new branches during the year that brought the total number of branches to 223 by June 30, 2020.

Furthermore, efforts continue to enhance digital banking channels through deployment of an improved Internet Banking system, Mobile Banking solutions and growth in Card and Agent Banking. To this end, 16 additional Abay-Bedeje Agents were recruited increasing the total number of Agents to 298. Likewise, as of June 30, 2020, the internet, mobile and card banking users of the bank have reached 3,964; 164,177; and 167,674, respectively. Partly due to the improved availability of the digital banking platforms, and the aggressive resource mobilization campaign conducted during the year, the bank's customer base has reached 824,890 demonstrating a trajectory of 32% from the previous year level.

Finally, I would like to express my heartfelt gratitude to the Management and employees of the Bank, to our esteemed customers, the shareholders, the National Bank of Ethiopia and other stakeholders for your unreserved support, and the Board of Directors for your profound leadership and support; without which, this commendable success and achievement were unthinkable.

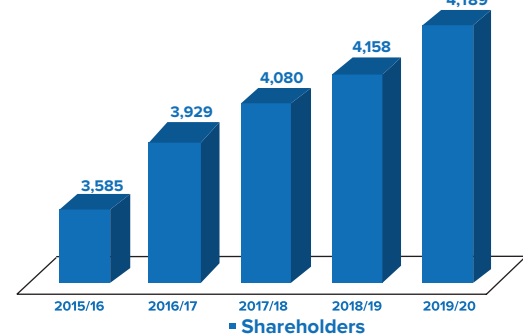
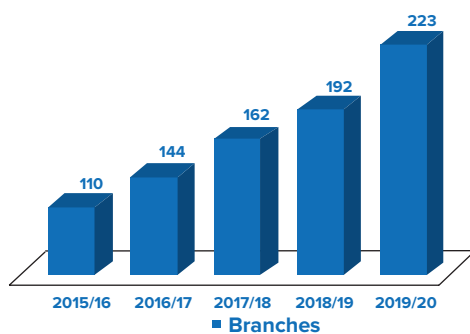
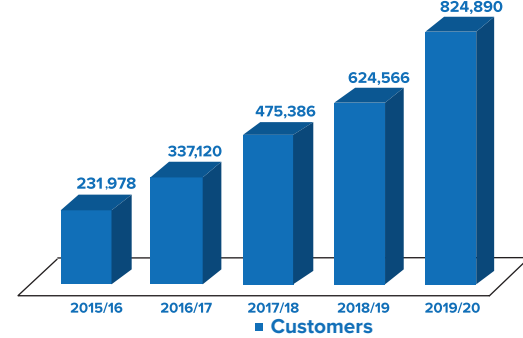
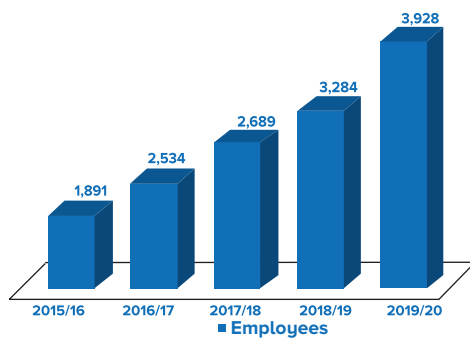
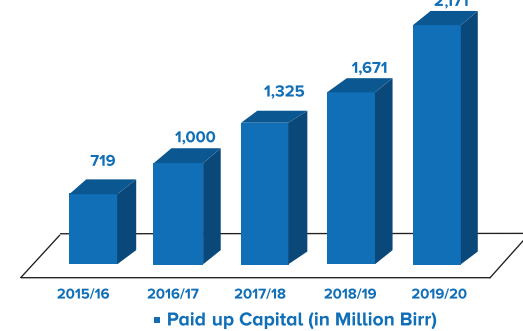
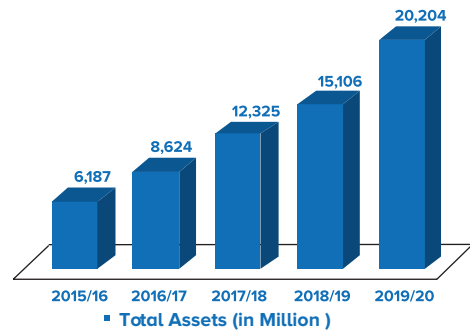
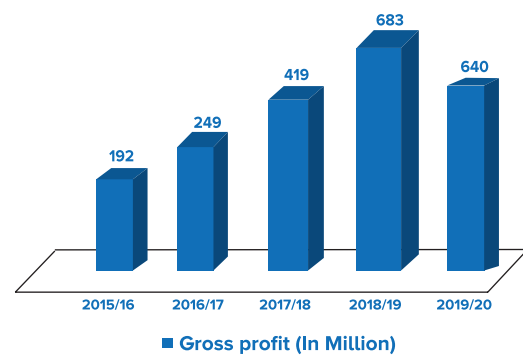
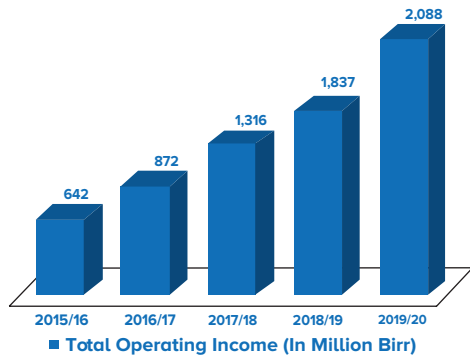
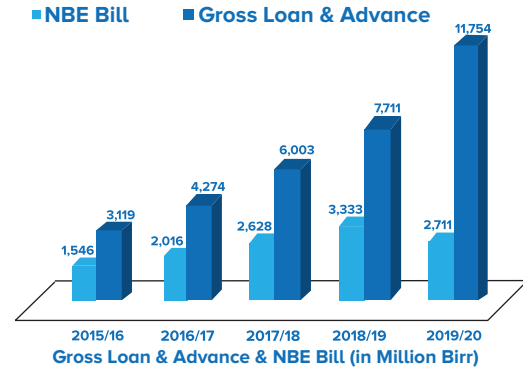
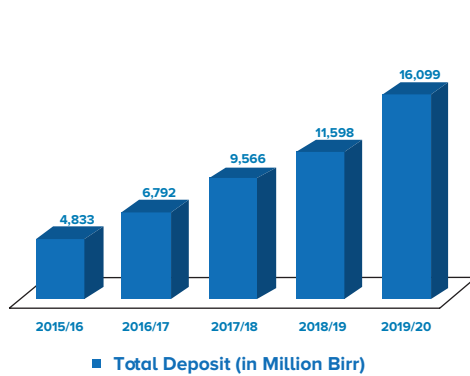
Thank you,

Yehuala Gessesse
Chief Executive Officer





Highlights of Major Achievements





Board of Directors' on Training



Management Meeting



Sharia Advisory Board Meeting



Third Round Foreign Currency Mobilization Campaign Prize Winners

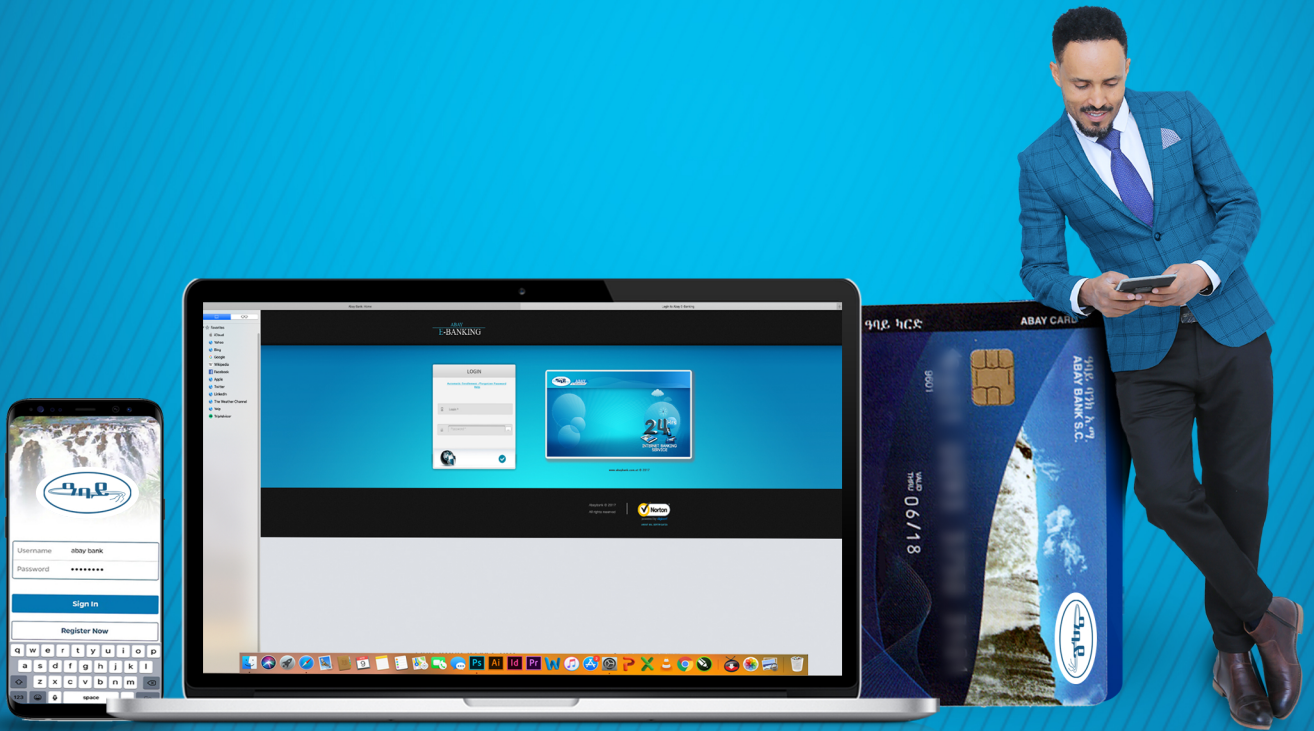




Consultation Meeting with the Bank's Customers

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ሒሳብዎን ያንቀሳቅሱ !

ACCESS YOUR ACCOUNT AND
TRANSFER WHEREVER, WHENEVER !



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10 YEARS OF TRUSTWORTHY SERVICE!





Abay Bank's Future Head Quarter Building Design - Addis Ababa



Abay Bank's Future Building Design - Bahir Dar



Abay Bank's Future Building Design - Dessie



Abay Bank's Building - Gondar



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Abay Bank

PART I

THE BOARD OF DIRECTORS' REPORT





PART I: THE BOARD OF DIRECTORS' REPORT

The Board of Directors is pleased to present the 2019/20 Annual Report. In what follows, we present an overview of our overall operational, financial, and non-financial performances during the just-completed fiscal year. The second part of the report covers the Auditors' report, containing the balance sheet, income statement, and other relevant notes prepared as per the requirements of IFRS.

1.1. Operational Performance

1.1.1. Deposit Mobilization

The total deposit mobilized by the Bank reached Birr 16.1 billion, which shows an absolute growth of Birr 4.5 billion or 39% from the balance registered in the previous year. From the total deposit Birr, 12.1 billion is collected through savings while the demand deposit contributed Birr 2.9 billion. Deposits mobilized through time deposit, which increased by 14% from the previous year, stood at Birr 1.1 billion. Compared to the previous year, both saving and demand deposit mobilization performance showed a growth rate of 49% and 17% respectively.

During the year, deposit mobilized through Abay-Saadiq, Interest-Free Banking service of the Bank has reached Birr 749 million, growing by 62% from last year's record.

The number of deposit accounts of the Bank, including Interest-Free Banking Service, reached 824,890 from its June 2019 record making an absolute growth of 200,324. This growth is, in fact, a clear indication of the improvements made in customer service and the consequent growing confidence of the public in the Bank.

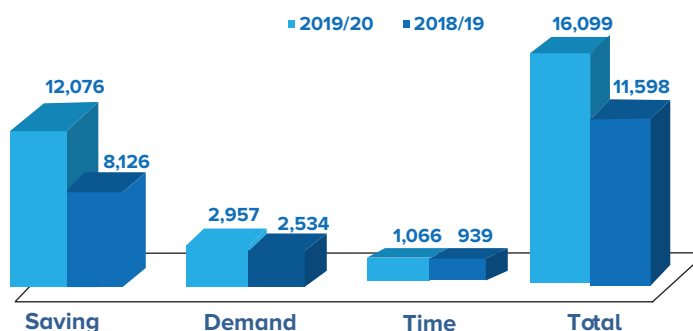


Figure 1. Deposit by Type (in Million Birr)

The composition of deposits has registered a shift during the last few years and the share of core deposits has grown gradually. Accordingly, saving deposits make up the largest share (75%), followed by demand deposits (18%) and time deposits (7%).

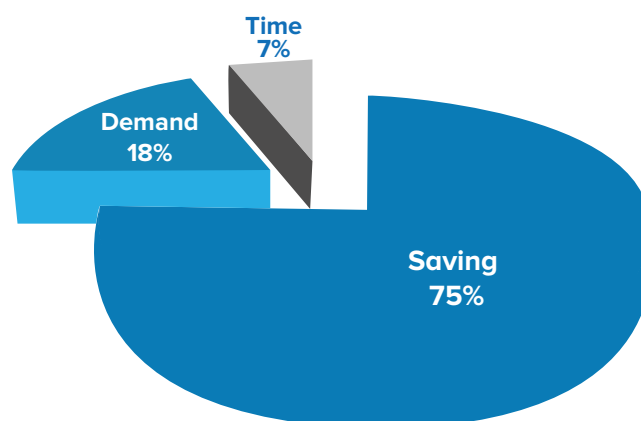


Figure 2. Share of Deposit by Type

1.1.2. Loans and Advances

The Bank has extended Loans and Advances to customers engaged in various business and investment activities. The Bank's lending books registered a commendable increment year-on-year. It showed a growth of 52% this past fiscal year, with gross loans rising to Birr 11.8 billion.

The composition of loans and advances comprises: International Trade (36.7%), Domestic Trade and Services (21.3%), Construction and Building (18.4%) and Manufacturing and Industry (8.2%), Transport and communication, and others accounted the remaining (15.4%) of the total outstanding loans and advances. Moreover, the Bank has been able to maintain a healthy loan portfolio as a result of its prudent loan management practice.

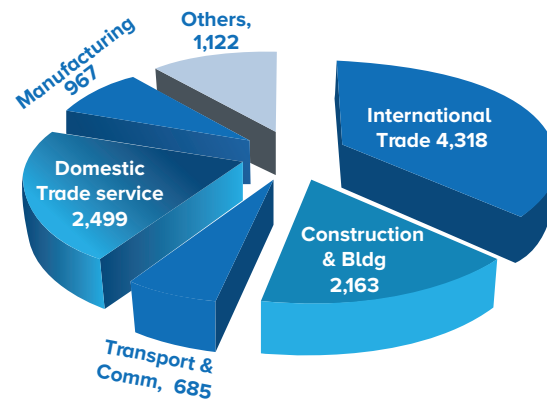


Figure 3: Loans and Advances by Sectors (in million Birr)

Note: 'Others' include Consumer Loans, Hotel & Tourism, Agriculture and Mines, Power & Water Resource



Some Projects Financed by the Bank



1.1.3. International Banking Operation

Due to the growing challenges in foreign currency earnings, the lack of Western based correspondent banking relations, coupled with the global economic slowdown impacted by the spread of COVID19, the bank's foreign currency mobilization declined from the previous year. As a result, the income generation from this source has been affected which in turn had significant impact on the overall profitability of the bank.

1.2. Financial Performances

1.2.1. Total Asset

The total asset of the Bank reached Birr 20.2 billion for the year just ended exceeding the balance of corresponding last year by Birr 5.1 billion registering a growth rate of 34%. The growth in loans and advances had a significant contribution to the growth of the Bank's asset.

1.2.2. Capital

As of June 30, 2020, the Bank's total capital reached Birr 3.1 billion exceeding the balance of last year's same period by 26%. Paid-up capital of the bank has reached Birr 2.2 billion registering a 30% growth from its previous year record thanks to the injection of Birr 500 million additional capital by the bank's shareholders.

1.2.3. Income

Registering growth of 14% from the previous year, the bank generated a total income of Birr 2.1 billion. In terms of revenue composition, the bank gained 72% of its income from interest income. On the other hand, 21% and 7% were from commission and services and other income sources in that order.

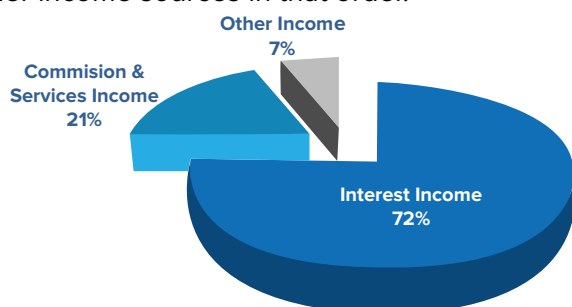


Figure 4: Income Composition

1.2.4. Expense

The total expense of the Bank during the financial period under review reached Birr 1.4 billion, which is higher by 25% compared to last year's same period. In reviewing the growth in the expense structure of the bank, provision & other expense, salary and benefit expense, and general expenses, and interest expenses have gone up by 48%, 29%, 24%, and 21%, respectively.

From the total expense, the share of interest expense took 39%, whereas the expenditure on Salary and Benefits account for 31%. The expense proportions for a general expense, provisions on loans, and other expenses are 24% and 5%, respectively.

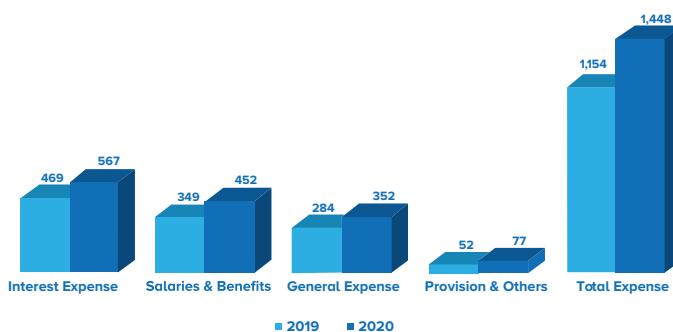


Figure 5: Performance of Major Expense category (in million Birr)

1.2.5. Gross Profit

The bank registered a profit before tax of Birr 640 million for the year ended June 30, 2020.

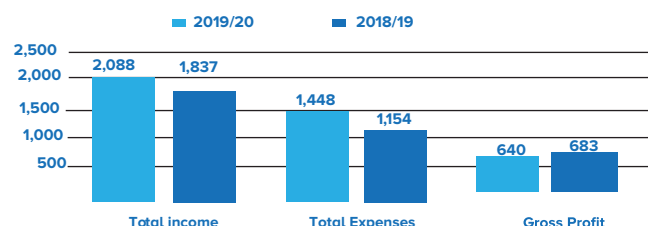


Figure 6: Gross Profit (in million Birr)



1.3. Non-Financial Performance

In this section, a brief review of the non-financial achievements of the bank, such as enhancing service outreach through the expansion of Branches and Digital-Banking Services, enhancing marketing and Risk management, and human resources development will be presented.

1.3.1. Branch Expansion

During the financial year under review, the Bank expanded its branch network in various parts of the country. Accordingly, we opened thirty-one additional branches during the period. Out of which, ten were opened in Addis Ababa city, and the remaining twenty one were opened in various regional towns making the total number of branches 223 at the close of the financial year.



Branch Inauguration Ceremony

1.3.2. Human Resource Management

To fully support the rapidly growing operational activities, the Bank continued to upgrade and strengthen its staff capabilities. During the fiscal year, a continued focus was placed on recruiting the most talented and experienced professionals. Accordingly, Abay has created a job opportunity for 644 new employees and the Bank's staff headcount of permanent and outsourced employees reached 3,928 as of June 30, 2020. Developing the competence of our employees is one of our strategic focuses, and we continued to invest in our human capital as usual. Accordingly, 2,186 staff received training in a range of core technical and developmental areas.

1.3.3. Digital-Banking Services and Information Technology

Technology has a considerable impact on the way banking and financial services are delivered. So far, Abay has taken different actions to enhance the application of digital banking and provide competitive services by employing state of the art technology.

Currently, Abay bank has made a significant investment to upgrade its Core Banking Solutions to the latest version, and the implementation has accomplished. Moreover, to cope-up with the future demand and stiffer competition, Abay has deployed various systems by internal capacity, integrated with external systems to deliver additional services like Mobile E-Top-up and other governmental payment services.

As part of enhancing the service provision and outreach via technology platforms, the Bank deployed 69 ATMs, distributed 76 Point of Sale machines (POS), and recruited 298 Abay Bedeje Agents throughout the country. On the other hand, in an attempt made to broaden the number of users of digital banking services, the Bank registered an encouraging result attaining the number of cardholders, mobile banking, and internet banking users to 167,674, 164,177, and 3,964, respectively.



1.3.4. Corporate Social Responsibility

As a corporate citizen, the bank endeavors to discharge its social responsibility in areas where its contributions will have an impact on the well-being of our community. During the period, the Bank has made significant contributions to support the well-being of the society at large.



Participation in Green Legacy Initiative



Donation of Excercise Book and Feeding Program

1.3.5. Risk Management and Compliance

As the banking business requires a dependable risk management system, the bank deployed a risk governance framework that extend from the Board of Directors to frontline workers, with the primary aim of monitoring and follow-up incidents and review their impacts. During the year, close follow-ups have been made by the BOD and the executive on regular basis to act upon risk areas identified by the bank’s internal control and risk management functions. Besides, by making a thorough analysis, Abay has set forth remedial actions to tackle the impacts of the COVID-19 pandemic.

1.4. The Way Forward

In going forward, we see that the future of the banking landscape will be even fiercer since the number of new banks entering the market is significant. On the one hand, we expect that the impact of COVID-19 on the overall economic and social activities and the political instability that our country is facing will pose challenges for the sector and the economy as a whole.

On the other hand, we believe that the government endeavors to ensure peace and stability, and stimulated by the homegrown economic reform agenda, the economic imbalances will be corrected. .

In the year just started, the Bank strives to excel in the competition in all operational matters, win better market shares, and attain the objectives set in our strategic plan considering the opportunities the environment is providing. Concerning non-operational aspects, the bank will continue to advance well in the construction projects of the Head Quarters and District Office buildings, acquire state of the art Anti-Money Laundering software to enhance our Risk Management capabilities, acquire IFRS software to modernize our financial reporting tools.

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አገልግሎቶችን እንደፍለግሃቸው!

SEVERAL LOANS
FOR YOUR NEEDS ... !



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ሰዲቅ صديق

صديق - الخدمات البنكية الخالية من الربا ببنك أباي

ሰዲቅ - የዓባይ ባንክ ከወለድ ነፃ
የባንክ አገልግሎት

በባንኩ፡-

- ✱ ሐጅ ልዩ የቁጠባ ሒሳብ ፤
- ✱ ወዲያ የቁጠባና ተንቀሳቃሽ ሒሳብ ፤
- ✱ ካፋላህ የዋስትና አገልግሎት ፤
- ✱ ሙራባህ ፤ ቀርድ የፋይናንሲንግ አገልግሎቶች ፤
- ✱ ፕንዘብዎን በቀላሉ ማንቀሳቀስ የሚችሉበት ሃላፊ ካርድ፤
- ✱ የሐዋላ አገልግሎቶች...
ይገልገሉ።



ዓባይ ባንክ
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ግብይ ባንክ
Abay Bank

PART II

AUDITOR'S REPORT





ABAY BANK SHARE COMPANY (S.C)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020
DIRECTORS AND STATUTORY INFORMATION

<u>Directors</u>	<u>Title</u>	<u>Appointment date</u>
<u>Ethiopia Tadesse</u>	<u>Chairperson</u>	<u>December 26,2018</u>
<u>Dr. Amlaku Asres</u>	<u>Vice chairperson</u>	<u>December 26,2016</u>
<u>Biyazen Enkuanhone</u>	<u>Member</u>	<u>June 16,2017</u>
<u>Fantu Golla</u>	<u>Member</u>	<u>December 26,2016</u>
<u>Mekonnen Yelewumwossen</u>	<u>Member</u>	<u>March 19, 2020</u>
<u>Mulat Tsaga</u>	<u>Member</u>	<u>December 26,2016</u>
<u>Tadesse Assefa</u>	<u>Member</u>	<u>March 19, 2020</u>
<u>Teshager Desalegn</u>	<u>Member</u>	<u>December 26,2016</u>
<u>Tilaye Bitew</u>	<u>Member</u>	<u>March 19, 2020</u>

Executive management

<u>Yehuala Gessesse</u>	<u>Chief Executive Officer</u>	<u>August 17,2015</u>
<u>Abraham Ejigu</u>	<u>Chief Corporate Banking Officer</u>	<u>May 27,2015</u>
<u>Belete Kene</u>	<u>Chief Corporate Services Officer</u>	<u>October 7,2015</u>
<u>Belete Dagnew</u>	<u>Chief Retail Banking Officer</u>	<u>October 12,2015</u>
<u>Daniel Legesse</u>	<u>Director - Strategy & Innovation</u>	<u>December 05,2011</u>
<u>Dawit Ayenew</u>	<u>Director - Internal Audit</u>	<u>June 01,2016</u>
<u>Elias Berhanu</u>	<u>Director - Information Technology</u>	<u>September 03,2018</u>
<u>Endakmew Getnet</u>	<u>Director - Legal Services</u>	<u>November 11,2015</u>
<u>Tsaga Mekonnen</u>	<u>Director - Risk Management & Compliance</u>	<u>December 01,2011</u>

Tafesse,Shisema and Ayalew Certified Audit Partnership (TMS PLUS)

Chartered Certified Accountants (UK)

Authorised Auditors (ETH)

Addis Ababa

Ethiopia



Principal bankers

Aktif Yatirim Bankasi A.S

Bank of Africa

Bank of Beirut,Cyprus

Bank of Beirut, Great Britain

Bank of Beirut Sail,Lebanon

CAC International Bank Djibouti

East Africa Bank,Djibouti

EBISA Ecobank , Paris

Exim Bank Djibouti S.A.

Kenya Commercial Bank

ODDO BHF Aktiengesellschaft





ABAY BANK SHARE COMPANY (S.C)

REPORT OF THE DIRECTORS

The directors submit their report together with the financial statements for the year ended 30 June 2020, to the shareholders of Abay Bank (the Bank). This report discloses the financial performance and state of affairs of the Bank.

Incorporation and address

Abay Bank was incorporated in July 2010 and registered as a public share holding company in accordance with the banking business proclamation No. 592/2008. The Bank obtained its licence from the National bank of Ethiopia on July 14, 2010 and started its operation on November 4, 2010. The Bank is domiciled in Ethiopia.

Principal activities

The mandate of the Bank is to optimize the stockholder value through sustainable growth and profitability, provide wide range of innovative and customer focused Banking products and services, boost operational excellence by employing state-of-the-art information technology, to be the employer of choice by creating conducive working environment wherein employees achieve their career aspirations.

Results

The Bank's profit for the year ended 30 June 2020 has been transferred to retained earnings.
The summarised results are presented below.

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Total operating income	1,461,968	1,352,587
Profit / (loss) before tax	640,295	683,013
Tax (charge) / credit	(139,092)	(181,424)
Profit / (loss) for the year	501,203	501,589
Other comprehensive income / (loss) net of taxes	26,871	3,641
Total comprehensive income/ (loss) for the year	528,074	505,230
Earnings per share (Birr)	269.66	343.36

Directors

The directors who held office during the year and to the date of this report are set out on page 24 .





ABAY BANK SHARE COMPANY (S.C) STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia of 1960, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank is required keep such records as are necessary to:

- a) exhibit clearly and correctly the state of its affairs;
- b) explain its transactions and financial position; and
- c) enable the regulatory body to determine whether the Bank had complied with the provisions of the Banking Business Proclamation and regulations and directives issued for the implementation of the aforementioned Proclamation.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, Banking Business Proclamation, Commercial code of 1960 and the relevant Directives issued by the National Bank of Ethiopia.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss.

The Director further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed on behalf of the Directors by:

Ethiopia Tadesse_____
Chairperson of Board of Directors

Yehuala Gessesse_____
Chief Executive Officer





Tafesse, Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants (UK) and Authorised Auditors (Ethiopia)



Member Firm of HLB International
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

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E-mail:- tmsplus@ethionet.et / tafessef@hotmail.com P.O.Box 110690 Addis Ababa - Ethiopia

INDEPENDENT AUDITOR'S REPORT ON THE ACCOUNTS OF

ABAY BANK SHARE COMPANY

Report on the Audit of the Financial Statement

Opinion

We have audited the financial statements of Abay Bank Share Company set out on pages 25-65, which comprise the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of cash flows and statement of changes in equity for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit matters

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

As described in notes 35 and 36 to the financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a complex accounting standard which requires significant judgment to determine the impairment losses.

Responsibilities of Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.





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

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on other Legal and Regulatory Requirement

We have no comment to make on the report of your Board of Directors so far as it relates to these financial statements and pursuant to Article 375(2) of the Commercial Code of Ethiopia 1960, and we recommend approval of the financial statements.

Tafesse, Shisema & Ayalew

Tafesse, Shisema and Ayalew Certified Audit Partnership (TMS Plus)
Chartered Certified Accountants (UK)
Authorized Auditors (ETH)

Addis Ababa
19 October 2020





ABAY BANK SHARE COMPANY (S.C)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Interest income	5	1,507,163	1,103,991
Interest expense	6	(567,458)	(468,705)
Net interest income		939,705	635,286
Fee and commission income	7	432,195	533,233
Fee and commission expense	8	(13,651)	(15,701)
Net Fee and commission income		418,544	517,532
Net gain on foreign exchange valuation	9	67,879	181,707
Other operating income	10	35,840	18,061
		103,719	199,769
Total operating income		1,461,968	1,352,587
Loan impairment charge	11	(26,443)	(48,264)
Other Assets Impairment Charge	12	(1,511)	(3,868)
		(27,954)	(52,132)
Net operating income		1,434,014	1,300,455
Personnel expenses	13	(451,897)	(348,971)
Depreciation & Amortization Intangible assets	22-23	(46,153)	(41,276)
Interest expense on lease liability	21	(3,864)	-
Other operating expenses	14	(291,805)	(227,195)
		(793,719)	(617,442)
Profit before tax		640,295	683,013
Income tax expense	15	(139,092)	(181,424)
Profit after tax		501,203	501,589
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified into profit or loss:			
Re-measurement gain/(loss) on Defined benefits obligations	29	4,032	(8,432)
Financial assets at FVOCI (equity investments)	18	22,839	12,073
Deferred tax (liability)/asset on re-measurement gain or loss		-	-
		26,871	3,641
Total comprehensive income for the period		528,074	505,230
Earnings per share (Birr)	31	269.66	343.36

The notes on pages 29 to 65 are an integral part of these financial statements.







ABAY BANK SHARE COMPANY (S.C)
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		30 JUNE 2020	30 JUNE 2019
	Notes	Birr'000	Birr'000
ASSETS			
Cash and bank balance	16	3,992,344	3,262,993
Loans and advances to customers	17	11,613,432	7,597,183
Equity Investments at fair value -OCI	18	93,010	60,244
Other Financial assets	19	3,800,975	3,680,462
Other Non Financial assets	20	37,431	28,471
Right of use assets	21	292,918	147,273
Property, plant and equipment	22	276,787	241,236
Intangible Assets-Software	23	16,062	20,513
Construction in progress	24	65,085	63,470
Non current asset held for sale	25	15,683	4,452
TOTAL ASSETS		20,203,729	15,106,297
LIABILITIES			
Deposits from customers	26	16,098,917	11,598,383
Current tax liabilities	15	139,092	181,424
Other Financial liabilities	27	627,810	747,552
Lease Liabilities	21	81,755	-
Non financial liabilities	28	126,885	82,509
Defined benefits obligation	29	30,597	33,631
Net deferred tax liabilities	15	9,742	5,346
TOTAL LIABILITIES		17,114,798	12,648,845
EQUITY			
Share Capital	30	2,170,608	1,670,608
Share Premium	30	28,290	28,087
Retained Earnings	32	313,106	377,566
OCI-Defined Employee Benefit	29	(11,503)	(15,535)
OCI-Equity Investment	18	22,839	12,073
Legal Reserve	33	475,329	350,027
Regulatory Risk Reserve	34	90,262	34,627
TOTAL EQUITY AND LIABILITIES		20,203,729	15,106,297

The notes on pages 33 to 65 are an integral part of these financial statements.

The financial statements on page 29 to 65 were approved and authorized for issue by the board of directors on 19 October 2020 were signed on its behalf by:

Ethiopia Tadesse 
Chairperson of Board of Directors

Yehuala Gessesse 
Chief Executive Officer



ABAY BANK SHARE COMPANY (S.C)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020



Notes	Share Capital Birr'000	Share Premium Birr'000	Retained Earnings Birr'000	OCI-Defined Employee Benefit Birr'000	Legal Reserve Birr'000	Regulatory Risk Reserve Birr'000	OCI-Equity Investment Birr'000	TOTAL Birr'000
at 1 July 2018	1,325,000	25,557	235,395	(7,103)	224,630	-	-	1,803,479
Issues of ordinary shares	345,608	2,530	-	-	-	-	-	348,138
Profit for the year	-	-	501,589	-	-	-	-	501,589
her comprehensive income:	-	-	-	-	-	-	-	-
Dividend paid	-	-	(235,395)	(8,432)	-	-	-	(243,827)
Share-based remuneration	-	-	(1,080)	-	-	-	-	(1,080)
-measurement on defined benefit plan	-	-	-	-	-	-	-	-
Unrealized gains	-	-	-	-	-	-	-	-
Other Equity investment	-	-	-	-	-	34,627	12,073	12,073
Transfer to legal reserve	-	-	(125,397)	-	125,397	-	-	34,627
Other Year adjustment	-	-	2,454	-	-	-	-	2,454
at 30 June 2019	1,670,608	28,087	377,565	(15,535)	350,027	34,627	12,073	2,457,453
at 1 July 2019	1,670,608	28,087	377,565	(15,535)	350,027	34,627	12,073	2,457,452
Issues of ordinary shares	500,000	203	-	-	-	-	-	500,203
Profit for the year	-	-	501,203	-	-	-	-	501,203
her comprehensive income:	-	-	-	-	-	-	-	-
Dividend paid	-	-	(377,565)	-	-	-	-	(377,565)
Share-based remuneration	-	-	(1,350)	-	-	-	-	(1,350)
-measurement on defined benefit plan	-	-	-	4,032	-	-	-	4,032
Other Equity Investment	-	-	-	-	-	-	10,766	10,766
Regulatory Risk Reserve	-	-	(60,031)	-	-	55,635	-	(4,396)
Transfer to legal reserve	-	-	(125,302)	-	125,302	-	-	-
Other period adjustment(IFRS)	-	-	(1,415)	-	-	-	-	(1,415)
at 30 June 2020	2,170,608	28,290	313,106	(11,503)	475,329	90,262	22,839	3,088,930

The notes on pages 33 to 65 are an integral part of these financial statements.





ABAY BANK SHARE COMPANY (S.C)
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2020

	<u>Notes</u>	<u>30 June 2020</u> <u>Birr'000</u>	<u>30 June 2019</u> <u>Birr'000</u>
Cash flows from operating activities			
Cash generated from operations	35	900,286	1,025,351
Income tax paid	15	(181,424)	(83,028)
Net cash (outflow)/inflow from operating activities		718,862	942,322
Cash flows from investing activities			
Purchase of investment securities	19	(11,149)	(611,679)
Purchase of equity investment	18	(22,000)	(11,069)
Purchase of leasehold land	21	-	(474)
Purchase of intangible assets	23	(459)	-
Purchase of property, plant and equipment	22	(78,539)	(86,702)
Proceeds from sale of property, plant and equipment	25	-	-
Net cash (outflow)/inflow from investing activities		(112,148)	(709,924)
Cash flows from financing activities			
Dividend paid	32	(377,565)	(235,395)
Proceeds from issue of shares	30	500,203	348,138
Payment of board remuneration	32	-	(1,080)
Net cash (outflow)/inflow from financing activities		122,638	111,663
Net increase/(decrease) in Cash and bank balances		729,352	344,060
Cash and Bank balances at the beginning of the year	16	3,262,993	2,918,932
Current year increase in cash and bank balance		729,351	344,061
Cash and bank balances at the end of the year	16	3,992,344	3,262,993

The notes on pages 33 to 65 are an integral part of these financial statements.





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. General information

Abay Bank S.Co or “the Bank” is a private commercial Bank domiciled in Ethiopia. The Bank was established on 14 July 2010 in accordance with the provision of the commercial code of 1960 and the banking business proclamation No. 592/2008. The Bank registered office is at:

**Zequala complex,
Jomo Kenyatta Avenue,
Addis Ababa Ethiopia**

The Bank is principally engaged in the provision of diverse range of commercial banking services.

2. Summary of significant accounting policies

The accounting policies applied in the preparation of these financial statements are set out below. Except for the changes made under note 2.2, the Bank has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

2.1. Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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.

2.2. Changes in accounting policies and disclosures

The Bank has initially adopted IFRS 9 from 1 July 2018. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard brings fundamental changes to the accounting for financial assets and financial liabilities.

2.3. Functional and presentation currency

The financial statements are presented in Ethiopian Birr which is the functional currency of the primary economic environment in which the Bank operates. Except otherwise indicated, financial information presentation has been rounded to the nearest thousands (Birr '000).

2.4. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated in to functional currency using closing rate as at the reporting date.

2.5. Going concern

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





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30JUNE 2020

2.6. Recognition of income and expenses

2.6.1. Interest income and expenses

Income 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 receipt is being made. Expense is recognized to the extent that it is probable that the economic benefits will flow to other party and the expense can be reliably measured, regardless of when the payment is being made.

For all financial instruments measured at amortized cost, Interest income and expenses are recognized in profit or loss using the effective interest rate (EIR) which is the rate that exactly discounts estimated future cash payments or receipts. The bank does not have loan processing fee and the inspection fee collected from customers are immaterial.

2.6.2. Fees and commission

Fees and commission income (commission on letters of credit, service charges, guarantees commissions, etc.) are recognized as the related services are performed. Fees and commission expenses are recognized as the related services are received.

2.6.3. Dividend income

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

2.6.4. Foreign exchange revaluation gains or losses

These are gains or 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.

2.6.5. Income tax

Income tax expense comprises current tax and change in deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rate that has been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are only offset when there is a legally enforceable right to offset current tax liabilities against current tax assets and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2.7 Financial assets and financial liabilities

i) Recognition and initial measurement

All financial assets are recognized when the Bank becomes a party to a financial asset contract, that is, when it gains a contractual right to receive cash or other financial assets from a contracting party. Financial liabilities are recognized when the Bank enters in to a contractual obligation to deliver cash or other financial asset to a contracting party.

A financial asset or financial liability is recognized initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

ii) Classification and subsequent measurement

For the purpose of subsequent measurement, the Bank classifies its financial assets based on the objective of the business model in which the financial asset is held at portfolio level.

Financial assets that are held with the objective of collecting contractual cash flows on a specified date and the cash flows are solely principal and interest are classified in to Financial assets measured at amortized cost. Financial assets classified under this category are loans and advances, deposits with local and foreign banks, NBE bills and other financial receivables.

Equity investments are measured at FVOCI as they are not held for trading. Subsequent changes in their value is presented in other comprehensive income (OCI).

iii) Impairment of financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit impaired. Financial assets are credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 loans and advances. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or
- the disappearance of an active market for a security because of financial difficulties

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments:

- Loans and advances
- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued

No impairment loss is recognized on equity investments.





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30JUNE 2020

The Bank recognizes life time ECL for stage 3 (non performing) loans and 12-month ECL for stage 1 and 2 loans. Stage 1 loans refers to normal loans including loans that are past due up to 29 days. Stage 2 loans are past due loans between 30 to 89 days and stage 3 loans are those loans that are past due 90 days and above.

Life-time ECL is the ECL that result from all possible default events over the expected life of the financial instrument. 12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. 12-month loss allowance is also recognized for financial assets that are determined to have low credit risk and on which credit risk has not increased significantly since their initial recognition.

iv) Measurement of ECL

ECL is calculated by multiplying probability of default (PD), loss given default (LGD) and exposure at default (EAD). ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. EAD represents the expected exposure in the event of default.

v) Derecognition of financial assets and financial liabilities

Financial assets are derecognized when contractual right to the cash flows from the financial asset expires or all the risks and rewards of ownership of the financial asset is transferred to another party. Financial liabilities are derecognized when contractual obligations are discharged or cancelled, or expire.

2.8 Cash and bank balances

Cash and bank balances comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with Banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at amortized cost using effective interest method in the statement of financial position.

2.9 Property, plant and Equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30JUNE 2020

(b). Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Bank. Recurrent repairs and maintenance are expensed as incurred.

(c) . Depreciation

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of property, plant and equipment. The annual depreciation rates in use are:

Asset class	Estimated useful life in Years
Buildings	50
Motor vehicles	10
Furniture and fittings	10-20
Office equipment	5-10
Computer and accessories	7

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(d). De-recognition

Property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognized net within 'other operating income' in profit or loss.

2.10. Intangible assets

Intangible assets (soft wares) acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is recognized in profit or loss in the year in which the expenditure is incurred.

The useful lives of Intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over a period of six (6) years from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates.

There are no intangible assets with indefinite useful lives.





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

2.11 Non-current assets held for sale

Repossessed non-financial collaterals acquired by the Bank in settlement of overdue loans and whose carrying amount will be recovered principally through a sale transaction rather than through use and a sale is considered highly probable are classified as non-current assets held for sale. They are measured at the lower of their carrying amount or fair value less costs to sell. Depreciation is not calculated on these assets.

2.12. Impairment of non-financial assets

The Bank assesses whether there is an indication that an asset may be impaired. If any indication such as decline in market value of the asset, changes in technology, physical damage, obsolescence, etc. exist, impairment loss will be recognized to ensure that non-financial assets are carried at no more than their recoverable amount.

2.13. Other assets

Other assets are payments made in advance for goods to be received or services to be enjoyed in future. They are initially recognized up on occurrence of event or transaction and subsequently canceled when the goods are received or amortized over the period in which the service is to be enjoyed.

2.14. Right of use assets

If it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.15. Employee benefits

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

(a). Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Bank operates two defined contribution plans:

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





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ii) Provident fund contribution, funding under this scheme is 8% and 12% by employees and the Bank respectively based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period during which related services are rendered. The current and past service cost of the defined benefit plan is recognized in the profit or loss statement Re-measurements of the net defined benefit liability, which compromise actuarial gains and losses are recognized immediately in other comprehensive income.

(b) Defined benefit plan

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit cost method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

The current and past service cost of the defined benefit plan is recognized in the profit or loss statement Re-measurements of the net defined benefit liability, which compromise actuarial gains and losses are recognized immediately in other comprehensive income.

(c). Termination benefits

Termination benefits are payable to employees who have served five years and above excluding dismissals whose employment is terminated by the bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.16. Provisions

The Bank recognizes provisions when it has present obligation (legal or constructive) as a result of 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. The amount of provision is determined using best estimate of the expenditure expected to settle the obligation at the reporting date.

2.17. Contingent liabilities

Letters of credit, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.





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2.18. Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

2.19. Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

3 Critical accounting estimates and judgments

In preparing the Bank's financial statements, management has made estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. Uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The following are key estimates and judgments that the management has used in the process of applying the bank's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

3.1. Impairment losses on loans and advances

The key inputs in measuring Expected Credit Loss (ECL) are Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). All these are estimates and judgments which are highly subjective.

3.2. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Bank's financial instruments are carried at fair value. If the market for a financial instrument does not exist, a degree of judgment is required to establish fair values judgment include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3.3 Defined benefit plans

The cost of the defined benefit plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.





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3.4. Property, plant and equipment

Property plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values may vary depending on a number of factors. In reassessing asset lives and residual values, factors such as technological innovation, product life cycles, maintenance programs and future market conditions are taken into account which involves extensive subjective judgment which may have significant impact on financial statements.

3.5. Taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Significant management judgment is required to determine the amount of 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. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

4. Financial risk management

4.1 Introduction

The Bank is exposed to various types of financial risks, the most important of which are credit risk, liquidity risk and market risk. The Bank's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank's financial performance.

4.1.1. Risk management structure

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established various committees, which are responsible for monitoring the Bank's risk in their specified areas. The senior management has the responsibility to develop and implement risk management policies and procedures. The risk and compliance department is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank and reports to the Board regarding risk management issues. Asset Liability Committee (ALCO) is responsible for managing the Bank's financial assets and financial liabilities and the overall financial performance.





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4.1.2. Risk measurement and reporting systems

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

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

4.1.3. Risk mitigation

The Bank uses various mitigating techniques to reduce its risk to the level acceptable. It uses Board approved risk tolerance limit as a risk limit control. This risk tolerance limit is composed of risk limit by sector, by credit product, by maturity, by geography and risk grade. The Bank also apply the limits imposed by National Bank of Ethiopia such as single borrower limit, related party limit, off balance sheet exposure limit, liquidity requirement, capital adequacy, etc.

In addition, the Bank has established an appropriate risk management environment, sound credit, liquidity and capital management policies and strategies.

4.2. Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank's main income generating activity is lending to customers and therefore credit risk is the principal risk. Exposure to credit risk is managed through periodic analysis of the ability of borrowers and potential borrowers to determine their capacity to meet principal and interest thereon, and restructuring such limits as appropriate. Exposure to credit risk is also mitigated, in part, by obtaining collateral, commercial and personal guarantees.

4.2.1. Management of credit risk

Credit management is conducted as per the risk management policy and guideline approved by the board of directors. Such policies are reviewed and modified periodically based on changes and expectations of the markets where the Bank operates, regulations, and other factors.

4.2.2. Credit quality

An analysis of the Bank's credit risk exposure per class of financial assets without taking into account the effects of any collateral or other credit enhancements is provided on the following table:





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Loans and advances to customers

	30 June 2020				30 June 2019	
	Birr'000				Birr'000	
	Stage 1	Stage 2	Stage 3	Total	Total	
Stage 1	11,160,459	-	-	11,160,459	7,132,426	
Stage 2	-	367,282	-	367,282	348,462	
Stage 3	-	-	226,004	226,004	230,599	
Total gross exposure	11,160,459	367,282	226,004	11,753,745	7,711,487	
Loss allowance	(70,631)	(5,627)	(55,838)	(132,096)	(114,304)	
Net carrying amount	11,089,828	361,655	170,166	11,621,649	7,597,183	

Off balance sheet items	Stage 1	Stage 2	Stage 3	Total
Stage 1	1,976,076	-	-	1,976,076
Stage 2	-	12,808	-	12,808
Stage 3	-	-	-	-
Total gross exposure	1,976,076	12,808	-	1,988,884
Loss allowance	(8,192)	(201)	-	(8,393)
Net carrying amount	1,967,884	12,607	-	1,980,491

The off balance sheet items include Loan commitments of Revolving credit facilities (Unutilized Amounts) and Guarantee; accordingly, from the total loss allowance of Birr 8.39 million in the off balance sheet Birr 0.176 million is Guarantee Loss Allowance.

4.2.3 Credit concentrations by sector

The Bank monitors credit risk by sectorial distribution against its own risk concentration limit. concentrations of credit risk at 30 June 2020 is give below.

An analysis of

	30 June 2020	30 June 2019
Sectors	Birr'000	Birr'000
Agriculture	98,932	77,140
Construction and Building	2,163,031	1,327,306
Consumer Loan	718,726	513,081
Domestic Trade Services	2,498,759	1,848,409
Export and Import	4,318,267	2,726,547
Hotel and Tourism	304,254	167,322
Manufacturing and Industry	966,922	492,970
Transport and Communication	684,853	558,712
Total gross exposure	11,753,745	7,711,487
- Less impairment	(140,313)	(114,304)
Net	11,613,432	7,597,183

4.2.4 Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of building, machinery, truck and other registered securities over assets and guarantees. The value collaterals in respect of loans and receivables are given below:





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Collateral Concentration by sector

Sector	Building	Machinery	Truck	Others	30 June 2020 Birr'000
					Total Collaterals
Agriculture	135,080	-	7,744	12,711	155,535
Construction and Building	4,913,007	462,611	1,060,050	81,991	6,517,659
Consumer Loan	817,693	1,660	50,846	14,253	884,452
Domestic Trade	5,825,623	11,123	410,852	75,542	6,323,140
Services	2,660,577	38,304	722,816	2,094,173	5,515,869
Export and Import	707,221	-	5,945	34,203	747,369
Hotel and Tourism	819,355	210,897	28,905	201,099	1,260,256
Manufacturing and Industry	258,161	27,056	1,861,410	15,994	2,162,622
Transport and Communication					
Total	16,136,717	751,652	4,148,568	2,529,964	23,566,902
Less: Impairment					(140,313)
Net					23,426,589

Management is confident in its ability to continue to control and effectively manage the credit risk exposure in the Bank's loan and advances portfolio.

Loans and advances to customers

	Stage 1	Stage 2	Stage 3	30 June 2020 Birr'000	30 June 2019 Birr'000
				Total	Total
Balance at 1 July	55,376	6,027	50,355	111,759	66,040
Transfer to 12 months ECL	2,544	(960)	(1,382)	202	-
Transfer to Lifetime ECL not credit impaired	(933)	1,737	(804)	0	-
Transfer to Lifetime ECL credit impaired	(305)	(235)	540	-	0
Net remeasurement of Loss allowance	(13,337)	194	14,435	1,292	36,433
Net financial assets originated or purchased	59,178	2,985	1,470	63,633	43,288
Financial assets derecognised	(31,894)	(4,120)	(8,776)	(44,790)	(31,456)
Balance at 30 June 2020	70,629	5,627	55,838	132,096	114,304
Off balance sheet exposures in total	8,192	201	-	8,393	





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4.3 Liquidity risk

Liquidity risk is the risk that the Bank, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position of the Bank is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions to ensure that sufficient liquidity is maintained. The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to net current liabilities. Details of the reported Bank's ratio of net liquid assets to net current liabilities at the reporting date and during the reporting year were as follows:

Ratio of net liquid assets to deposits

	30 June 2020 Birr'000	30 June 2019 Birr'000
At Close of the year	25.1%	31.3%
Average for the year	25.3%	24.9%
Maximum for the year	29.2%	31.3%
Minimum for the year	20.6%	19.0%

The table below summarizes the Bank's liquidity risk as at 30 June 2020, categorized into relevant maturity groupings based on Contractual maturity date.

	30 June 2020				30 June 2019	
	Below 1 year Birr'000	1-3 years Birr'000	over 3 years Birr'000	Non Maturing Birr'000	Birr'000 Total	Birr'000 Total
30 June 2020 Financial Assets						
Cash and bank balances	3,992,344	-	-	-	3,992,344	3,262,993
Loans & advances to customers	5,276,539	2,637,731	3,699,162	-	11,613,432	7,597,183
Equity investments	-	-	-	93,010	93,010	60,244
Other Financial Assets	1,833,256	1,892,856	74,862	-	3,800,975	167,199
Total Financial Assets (a)	11,102,140	4,530,587	3,774,024	93,010	19,499,761	11,087,619





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					30 June 2019 Birr'000
Financial Liability					
Deposits from customers	2,571,917	3,381,750	10,145,250	16,098,917	11,598,383
Deposits from other banks		-	-	-	-
Other liabilities	126,884	627,810	-	754,694	830,061
Total financial liabilities (b)	2,698,801	4,009,560	-	10,145,250	16,853,611
Net Mismatch (a- b)	8,403,339	521,027	3,774,024	(10,052,240)	2,321,757
Cumulative Mismatch	8,403,339	8,924,366	12,698,390	2,646,150	5,292,300
					4,643,514

The cash flows presented in the table above are the undiscounted amounts to be settled in the future. The analysis shows that the Bank will not be exposed to liquidity risk in the future.

Staff Loans measured at fair valuation

Stages	30 June 2020 Birr'000 Total
Stage 1	167,199
Stage 2	906
Stage 3	286
Grand Total	168,390

4.4 Market risk

Market risk is the risk of loss that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments 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 currencies other than Ethiopian Birr. Management has set limits to manage the Bank's foreign exchange risk against its functional currency.

The total foreign currency denominated assets exposed to risk at 30 June 2020 was Birr 507.9 million.





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The table below summarizes the foreign currency exposure as at 30 June 2020 and 30 June 2019

Foreign currency denominated balances

	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash and bank balances		
USD	437,573	371,688
GBP	67,163	2,844
EURO	3,118	38,054
Total	507,854	412,586

(ii) **Sensitivity analysis for foreign exchange risk**

Sensitivity analysis of foreign exchange risk measures the impact of currency rate fluctuation on profitability of the Bank with all other variables held constant. The following table summarizes the sensitivity profit due to increase or decrease in foreign currency rate by 10% on foreign currency denominated monetary assets:

Assets	30 June 2020 Birr'000			30 June 2019 Birr'000		
	Carrying Amount	10% Appreciation	10% Depreciation	Carrying Amount	10% Appreciation	10% Depreciation
USD	437,573	43,757	(43,757)	371,688	37,169	(37,169)
GBP	67,163	6,716	(6,716)	2,844	284	(284)
EURO	3,118	312	(312)	38,054	3,805	(3,805)
Total	507,854	50,785	(50,785)	412,586	41,259	(41,259)

At 30 June 2020 if the Birr had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, profit before tax would have been lower/higher 50.8 million Birr. other variables held constant, profit before tax would have been lower/higher 50.8 million Birr.

(iii) **Interest rate risk**

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises.

The Bank closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of financial assets and liabilities carried on the statement of financial position.





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Sensitivity analysis for interest rate risk

Sensitivity analysis of interest rate risk measures the impact of interest rate fluctuation on profitability of the Bank with all other variables held constant. The following table summarizes the sensitivity profit due to increase or decrease in interest rate by 10% on interest bearing financial assets and liabilities. The sensitivity is measured based on the assumption that there is parallel shift in the yield curve.

Interest rate risk	30 June 2020		
	Carrying Amount	10% Increase	10% Decrease
Interest Bearing assets			
NBE Bills	2,711,092	271,109	(271,109)
Loans and Advance to Customers at amortized cost	11,613,432	1,161,343	(1,161,343)
Fixed Time deposit	666,249	66,625	(66,625)
Total Interest Bearing assets	14,990,773	1,499,077	(1,499,077)
Interest Bearing liabilities			
Interest Bearing Liabilities			
Deposits from banks	15,032,844	1,503,284	(1,503,284)
Deposits from customers	1,066,073	106,607	(106,607)
Fixed Time deposit	16,098,917	1,609,892	(1,609,892)
Total Interest Bearing Liabilities	-	-	-
Net Interest income increase/decrease	(1,108,144)	(110,814)	110,814

If interest rate had increased/decreased by 10% against interest bearing assets and liabilities, 'with all other variables held constant, profit before tax would have been lower/higher by 0.51 million Birr respectively.

4.5 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.





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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.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Capital		
Share capital	2,170,608	1,670,608
Share premium	28,290	28,087
Legal reserve	475,329	350,027
General Reserve	-	-
Total regulatory capital	2,674,227	2,048,722
Total risk weighted assets	16,367,424	10,814,320
Risk-weighted Capital Adequacy Ratio (CAR)	16.34%	18.94%
Minimum required capital	8%	8%
Determination of the excess (short-fall) on capital	1,365,043	1,183,576

5 Interest income

	30 June 2020 Birr'000	30 June 2019 Birr'000
Loans and advances to customers	1,358,782	991,413
Treasury Bills	265	-
NBE bills	117,525	95,420
Deposits	54	5,510
Time deposit	30,537	11,647
	1,507,163	1,103,991

6 Interest expense

	30 June 2020 Birr'000	30 June 2019 Birr'000
Deposits from customers	497,833	394,691
Deposits from cooperatives and other Banks	67,493	73,180
Deposits from public agencies	2,132	834
Borrowings	-	-
	567,458	468,705





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	30 June 2020 Birr'000	30 June 2019 Birr'000
7 Fee and commission income		
Commission income Local	141,600	120,222
Commission income Foreign	91,026	144,312
Service charges Local	5,479	3,511
Service charges Foreign	185,813	258,369
Processing fees	8,277	6,819
	432,195	533,233
8 Fee and commission expense		
Other operating expenses	3,883	3,190
Subscription & Publication	246	96
Telephone expenses	3,666	3,444
Fund transfer fees and expenses	5,856	8,971
	13,651	15,701
9 Net gain on foreign exchange valuation		
Gain on Foreign Exchange Valuation	113,241	204,182
Loss on Foreign Exchange Valuation	(45,362)	(22,475)
	67,879	181,707
10 Other operating income		
Rental income	-	64
Gain on disposal of properties	2,946	437
Penalty Charge Income	5,732	5,254
Dividend earned	2,344	2,992
Other income	24,818	9,314
	35,840	18,061
11 Loan impairment charge		
Loan impairment charge	26,443	48,264
	26,443	48,264





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12 Impairment losses on other assets/liabilities

	30 June 2020 Birr'000	30 June 2019 Birr'000
Impairment losses on other assets	1,538	3,237
Impairment losses on Court Case	-	800
Impairment losses on LCS	12	(20)
Impairment losses on Gurantees	(40)	(187)
Impairment losses on Cash & bank Balance	30	38
Impairment losses on NBE Bill	(29)	(1)
	1,511	3,868

13 Personnel expenses

Staff Salaries	263,148	195,486
Staff allowances	79,322	56,966
Pension costs – Defined Employee Benefit	29,006	21,605
Defined Employee Benefit	3,319	5,622
Other staff expenses	76,329	68,665
Wages for non-permanent employees.	773	627
	451,897	348,971

14 Other operating expenses

Accommodation	1,183	310
Advertisement & publicity	31,300	16,352
Amortisation Leasehold Land	573	506
Donations	3,050	15,557
Audit fees	272	272
Consultancy fee	3,600	1,660
Directors' related expenses	900	556
Entertainment	173	158
Event organization expense	57	132
Fuel and lubricants	2,928	2,680
Insurance	7,073	5,535
IT support	27,031	13,978
Loss on Desposal of Assets	660	-
Office supplies	20,004	13,761
Other operating expense	2,150	6,533
Perdiem administration	3,304	3,230
Rental expenses	108,096	87,811
Repairs and maintenance	5,430	4,464
Security, Messengers & Janitors expenses	57,405	37,230
Staff loan - Amortisation	-	6,949
Sundries	821	550
Telephone expenses	6,047	-
Transport and fuel	7,708	7,699
Utilities	2,040	1,272
	291,805	227,195





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15 Company income and deferred tax

Reconciliation of effective tax to statutory tax

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
IFRS accounting profit	640,295	683,013
<i>Add : Disallowed expenses</i>		
Entertainment	173	182
Donation	50	-
Penalty	470	805
Current service cost, past service cost and interest	3,319	4,932
Legal provision	-	800
Others	177	219
Provision for loans and advances as per IFRs	26,443	48,264
IFRS other asset impairment	1,463	5,804
IFRS Lease interest expense	2302	-
Depreciation & amortization for IFRS accounting purpose	46,153	41,276
Sub total	80,550	102,283
<i>Less: tax exempted income</i>		
Depreciation for tax purpose	34,484	33,472
Provision for loans and advances for tax NBE 80%	61,819	12,756
Other asset provision (all)	9,786	19,271
Interest income taxed at source-local deposit	30,537	11,647
Interest taxed at source-NBE bill	117,525	95,420
Interest taxed at source-Treasury bill	265	-
Interest Income taxed at source-foreign	54	5,510
Dividend income taxed at source	2,344	2,992
Amortization expense, Pre establishment cost	400	400
Other adjustment	-	-
Sub total	257,213	181,469
Taxable profit	463,631	603,827
Current tax @30%	139,089	181,148
Add:5% of interest on foreign deposit	2.68	276
	139,092	181,424





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	30 June 2020 Birr'000	30 June 2019 Birr'000
Current income tax liability		
Balance at the beginning of the year	181,424	79,046
Prior year over /under paid	-	3,982
Income tax expense	139,092	181,424
Payment during the year	(181,424)	(83,028)
	139,092	181,424

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

Deferred income tax assets/(liabilities):	30 June 2019 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2020 Birr'000
Property, plant and equipment	15,436	3,485	-	18,921
Post employment benefit obligation	(10,089)		910	(9,179)
Total deferred tax assets/(liabilities)	5,347	3,485	910	9,742

Deferred income tax assets/(liabilities):	30 June 2018 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2019 Birr'000
Property, plant and equipment	16,234	(798)	-	15,436
Post employment benefit obligation	(6,107)	-	(3,982)	(10,089)
Total deferred tax assets/(liabilities)	10,126	(798)	(3,982)	5,347

	30 June 2020 Birr'000	30 June 2019 Birr'000
Deferred tax liability		
Fixed asset - carrying amount (IFRS)	292,847	261,748
Fixed assets - tax base	229,777	210,296
Fixed assets - temporary difference	63,070	51,452
deferred tax liability @30%	18,921	15,436
Severance pay - carrying amount	30,597	33,631
Severance pay - tax base	-	-
Severance pay temporary difference	30,597	33,631
Deferred tax @30%	9,179	10,089
Deferred tax liability	9,742	5,346





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

16 Cash and cash equivalents

Cash on hand
Deposits with local banks
Deposits with foreign banks
Less: Bank balance impairment

30 June 2020	30 June 2019
Birr'000	Birr'000
1,625,089	1,488,413
1,905,603	1,445,397
461,770	329,272
(118)	(89)
3,992,344	3,262,993
<hr/>	
3,992,344	3,262,993
3,992,344	3,262,993

Maturity analysis

Current

17 Loans and advances to customers

Agriculture
Construction and Building
Consumer Loan
Domestic Trade Services
Export and Import
Hotel and Tourism
Manufacturing and Industry
Transport and Communication

Total gross exposure

Less impairment

30 June 2020	30 June 2019
Birr'000	Birr'000
98,932	77,140
2,163,031	1,327,306
718,726	513,081
2,498,759	1,848,409
4,318,267	2,726,547
304,254	167,322
966,922	492,970
684,853	558,712
11,753,745	7,711,487
(140,313)	(114,304)
11,613,432	7,597,183
<hr/>	
5,276,539	1,911,694
6,336,892	5,685,489
11,613,432	7,597,183

Maturity analysis

Current

Non Current





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

18 Equity Investments

	30 June 2020 Birr'000			30 June 2019 Birr'000
Equity investments	At cost	At fair value	OCI	At fair value
Abay Insurance S.C	15,000	20,027	5,027	20,027
Abay Industries S.C	42,069	42,069	-	42,069
Addis-Africa Int. Conv. & Exh.	1,000	604	(396)	604
Dessie Hidassie Building .C	100	100	-	100
Ethiswitch S.C	12,002	30,210	18,208	30,210
Carrying Amount	70,171	93,010	22,839	93,010
Fair value as at 30 June 2020		93,010		
Unrealized Gain/Loss to OCI		-	22,839	-
30 June 2020	70,171	93,010	22,839	93,010
Net Fair value as at 30 June 2019				12,073
Equity investment at cost- June 30, 2019	48,171			48,171
Equity investment during the period	22,000			

'The fair value of the unquoted equity securities carried at cost has been reliably estimated for the five equity Investments as at 30 June 2020. However, the fair value of Abay Industry S.C and Dessie Hidassie Building S.C.estimated at cost because they are not operating.

19 Other Financial assets

	30 June 2020 Birr'000	30 June 2019 Birr'000
Time deposit	666,249	101,744
Treasury bill	99,695	
National Bank of Ethiopia bill	2,711,092	3,386,441
	3,477,036	3,488,185
Less Impairment on NBE and Treasury Bills	(141)	(169)
	3,476,895	3,488,016





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	30 June 2020 Birr'000	30 June 2019 Birr'000
Receivable from money transfer agents	102,790	89,783
Staff Receivable	2,042	1,916
Other receivables	225,980	105,989
Shares held for resale	100	100
	330,912	197,788
Less: impairment allowance	(6,832)	(5,342)
Total Other Financial Assets	3,800,975	3,680,462

	30 June 2020 Birr'000	30 June 2019 Birr'000
Maturity analysis		
Current	1,540,338	175,071
Non Current	2,260,637	3,505,391
	3,800,975	3,680,462

	30 June 2020 Birr'000	30 June 2019 Birr'000
20 Other Non-financial assets		
Prepayments	12,892	11,197
Inventory in stock	24,539	17,274
	37,431	28,471

- 21 Right of Use of Asset**
The bank applied IFRS 16 using the modified prospective approach, under which the cumulative effect of initial application is recognised in retained earnings. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

On transition to IFRS 16, the bank uses Weighted Average Cost of Capital for discounting only to those active Right use of assets contracts and recognized additional lease liabilities. And these amounts are recognizing the difference in retained earnings. The impact on transition is summarised below:

	30 June 2020 Birr'000
Office Rent	
Right-of-use assets – July 1, 2019	188,936
Add: Lease Liability	76,476
Add(Less): amortization	1,562
Total	266,973
Lease Liabilities -Office rent	
Add: Lease Liability	76,476
Add: Interest Expense on discounting	5,279
Total	81,755
Office Rent	
Interest expense-Right of Use of Asset	
Add: Interest expense	5,279
Total	5,279
Amortize expense-Right of Use of Asset	
Add(Less): Amortization	(1,562)
Total	(1,562)

	30 June 2020 Birr'000	30 June 2019 Birr'000
Office Rent	266,973	120,848
Land	25,945	26,425
Total Right of use asset	292,918	147,273





22 Property, plant and equipment

Description	Buildings		Motor Vehicles		Furniture & Fittings		Office Equipment		Computer & Accessories		Total	
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Cost:												
As at 1 July 2019	3,425	90,389	65,886	89,689	128,126	377,516						
Additions	-	32,240	13,990	18,364	13,946	78,539						
Disposals		(6,661)	(6)	(1,903)	(823)	(9,392)						
Reclassification												
As at 30 June 2020	3,425	115,968	79,870	106,149	141,250	446,663						

Accumulated depreciation:

As at 1 July 2019	116	34,142	19,388	30,936	51,698	136,280
Charge for the year	65	9,165	5,347	10,419	16,247	41,243
Disposals		(5,589)	(1)	(1,454)	(603)	(7,647)
Reclassification						
As at 30 June 2020	181	37,718	24,734	39,902	67,342	169,876
Net book value:						
30-Jun-2019	3,309	56,247	46,498	58,753	76,428	241,236
30 June 2020	3,244	78,250	55,136	66,248	73,908	276,787





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

23 Intangible Assets

Cost:

30 June 2019

Additions

Disposals

Reclassification

30 June 2020

Accumulated amortization

30 June 2019

Charge for the year

Disposals

30 June 2020

Net book value:

30 June 2020

30 June 2020	30 June 2019
Birr'000	Birr'000
46,615	46,615
459	-
-	-
-	-
47,074	46,615
26,102	20,989
4,910	5,113
-	-
31,012	26,102
16,062	20,513

24 Construction in Progress

As at 1 July 2019

Additions for the year

As at 30 June 2020

30 June 2020	30 June 2019
Birr'000	Birr'000
63,470	62,054
1,615	1,416
65,085	63,470

25 Non current asset held for sale

Cost

Opening

Additions/deduction

Balance at the end of the year

The Bank's policy is to pursue realization of the collateral in a timely manner.

30 June 2020	30 June 2019
Birr'000	Birr'000
4,452	12,977
11,231	(8,525)
15,683	4,452

26 Deposits from customers

Demand deposits

Savings deposits

Time deposits

30 June 2020	30 June 2019
Birr'000	Birr'000
2,957,093	2,533,564
12,075,751	8,126,013
1,066,073	938,806
16,098,917	11,598,383

Maturity analysis

Current

Non Current

30 June 2020	30 June 2019
Birr'000	Birr'000
16,098,917	11,598,383
-	-
16,098,917	11,598,383





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

27 Other Financial liabilities

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Audit fee payables	272	272
Cash payment order payable	77,289	92,178
Customers payables	23,999	31,966
Deferred guarantee income	10,424	37,031
Directors share of profit payable	1,350	1,080
Dividend payables	23,548	24,026
Exchange commission payable	22,379	22,803
Foreign transfers payables	83,892	152,876
Impairment Financial Guarantee	144	184
Impairment on L/C	33	20
Margin Held Accounts	351,675	361,178
Refund payable	36	15
Shareholders payables	918	993
Staff leave payables	31,851	22,929
	627,810	747,552

28 Non-financial liabilities

Stamp duty payable	1,180	869
Provision for bonus	30,000	34,415
Withholding tax and valued added tax payables	1,114	724
Other tax payable	5,762	5,641
Sundry payables	88,829	40,861
	126,885	82,509
Total financial and non financial liabilities	754,695	830,061

*Sundry payables includes blocked accounts payables, court cases payables, telephone payable and other miscellaneous.

Maturity analysis

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Current	627,810	607,911
Non Current	126,884	222,150
	754,694	830,061





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

29 Severance benefits

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

Liabilities recognized in the statement of financial position is as follows:

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Defined benefits obligation	30,597	33,631
Total defined benefit obligation	30,597	33,631

Below are the details of movements and amounts recognized in the financial statements:

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Amount recognized in the profit or loss		
Current service cost	4,397	2,695
Interest cost	4,353	2,927
Past service cost	(5,431)	-
Total expense recognized	3,319	5,622

Amount recognized in other comprehensive income:

The movements recognized under other comprehensive income (OCI) for the year ended 30 June 2020 are

	30 June 2020	30 June 2019
	Birr'000	Birr'000
At the beginning of the year	15,535	7,103
Actuarial (Gains)/Losses on economic assumptions	(11,173)	3,762
Actuarial (Gains)/Losses on experience	7,141	4,670
Expense/(Income) recognized in OCI	(4,032)	8,432
Expense/(Income) recognized in OCI	11,503	15,535

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

	30 June 2020	30 June 2019
	Birr'000	Birr'000
At the beginning of the year	33,631	20,357
Current service cost	4,397	2,695
Interest cost	4,353	2,927
Remeasurement (gains)/ losses	(4,032)	8,432
Benefits paid	(7,752)	(780)
Past service cost	-	-
At the end of the year	30,597	33,631





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

The key financial assumptions applied in the valuation, compared to those applied in the previous valuation are summarized as follows:

Assumptions

	30 June 2020 Birr'000	30 June 2019 Birr'000
Discount Rate	14.90%	11.75%
Inflation Rate	10.00%	10.00%
Salary increase Rate	10.00%	10.00%
Net pre-retirement Rate	4.45%	1.59%

30 Share capital

Authorized:

Ordinary shares of Birr 1000 each

30 June 2020 Birr'000	30 June 2019 Birr'000
2,500,000	2,500,000

Issued and fully paid:

Ordinary shares of Birr 1000 each

Share premium

2,170,608	1,670,608
28,290	28,087
2,198,898	1,698,695

The Bank shares are owned by individuals and companies.

31 Earnings per share

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Profit attributable to shareholders	501,203	501,589
Weighted average number of ordinary shares in issue	1,858,680	1,460,831
Basic earnings per share (Birr)	269.66	343.36

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date.





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

32 Retained earnings

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	377,566	235,395
Dividend paid	(377,566)	(235,395)
Carried forward	-	-
Profit/ (Loss) for the year	501,203	501,589
Board remuneration	(1,350)	(1,080)
Legal reserve	(125,302)	(125,397)
Regulatory risk reserve	(55,633)	-
Deferred tax liabilities	(4,396)	-
Prior period adjustment	(1,415)	2,454
At the end of the year	313,106	377,566

33 Legal reserve

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	350,027	224,630
Transfer from profit or loss	125,302	125,397
At the end of the year	475,329	350,027

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.

34 Regulatory risk reserve

	30 June 2020 Birr'000	30 June 2019 Birr'000
On loans		
Loan impairment under IFRS 9	140,313	114,304
NBE directive requirement	(191,144)	(120,195)
Regulatory risk reserve	(50,831)	(5,891)
On Other assets		
Other Assets impairment under IFRS 9	6,832	5,342
NBE directive requirement	(46,263)	(34,078)
Regulatory risk reserve	(39,431)	(28,736)
Regulatory risk reserve Ending balance	90,262	34,627





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

The Regulatory risk reserve is a non-distributable reserve required by the regulation of National Bank of Ethiopia to be kept for impairment losses on loans and other receivables in excess of IFRS 9 charges.

When the loan loss impairment determined using the NBE guidelines is higher than loss impairment determined under IFRS 9 model, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the bank.

Where the loss impairment determined using the NBE guidelines is less than the loan loss impairment determined using under IFRS 9 model, the difference is transferred from regulatory risk reserve to the retained earnings to the extent of non-distributable reserve previously recognized

		30 June 2020	-
	Notes	Birr'000	Birr'000
35 Cash generated from operating activities			
Profit before tax		640,295	683,013
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	22	41,243	36,163
Amortization of intangible assets	23	4,910	5,113
Amortization on Right of use of asset and liabilities	21	1,562	506
Gain/(Loss) on disposal of property, plant and equipment	10	2,946	437
Impairment on loans, receivables, guarantee and LC	17, 19 & 27	27,954	4,821
Interest accrued on NBE bills		(51,417)	(17,699)
Employee benefit obligations	29	(3,319)	1,154
Changes in working capital:			
-Decrease/ (Increase) in loans and advances	17	(4,042,258)	(1,698,728)
-Decrease/ (Increase) in other assets	19, 20, 21 & 30	(223,904)	(34,572)
-Decrease/ (Increase) in Construction in progress	24	(1,615)	-
-Increase/ (Decrease) in deposits from customers	26	4,500,534	2,132,294
-Increase/ (Decrease) in deposits from other Banks	26	-	(100,000)
-Increase/ (Decrease) in other liabilities	21, 27, 28 & 29	3,355	12,848
		900,286	1,025,351
Proceeds on disposal			
Net book value of property, plant and equipment disposed		(1,746)	(11)
Gain/(loss) on sale of property, plant and equipment		2,946	437





ABAY BANK SHARE COMPANY (S.C)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

36 Key management compensation

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

There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2020.

Annual Salary & Benefit	8,306	7,482
	8,306	7,482

Compensation of the Bank's key management personnel includes salaries, allowances and bonus.

37 Contingent liabilities

Claims and litigation
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 summarizes the fair value amount of contingent liabilities for the account of customers:

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Guarantees	3,698,960	3,915,103
Letters of credit	975,587	753,585
	4,674,547	4,668,688

38 Commitments

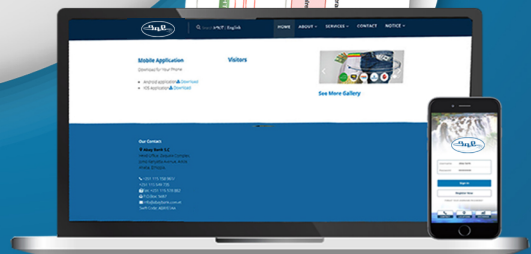
The Bank has no capital commitments as at 30 June 2020.

39 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 2020 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.



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10 የስኬት ዓመታት በታማኝነት!
10 YEARS OF TRUSTWORTHY SERVICE!



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Abay Bank

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