



Journey to Financial Success

BOARD OF DIRECTORS



Tadesse Kassa
Board Chairperson



Alemenew Mekonnen
Board Member



Dr. Leyew Semaneh
Board Member



Dr. Yelekal Adamu
Board Member



Zewdu Muche
Board Member



Mekbib Alemu
Board Member



Gebeyaw Takele
Board Member



Achameyelesh Ashenafi
Board Member



Migbaru Wubie
Board Member

Executive Management



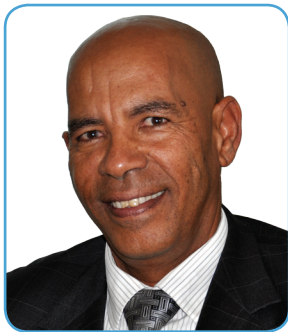
Mesenbet Shenkute
President



Deribe Mengesha
Director, Credit Management



Desalegn Ayalew
Director, Finance and Accounts



Molla Mengistu (PhD)
Director, Business Development & Communication



Enye Bemir
Director, Human Resource Management



Ayenew Wudu
Director, Information Technology



Adugna Ashagre
Director, Procurement and Facility Management



Abraham Ejigu
Director, Internal Audit



Eshete Yemata
Director, International Banking & Branch Operation



Tsega Mekonnen
Director, Risk and Compliance

MESSAGE FROM CHAIRPERSON OF THE BOARD OF DIRECTORS



Tadesse Kassa
Board Chairman

On behalf of the Board of Directors of Abay Bank, I feel honored and privileged to present the Bank's Annual Performance Report together with the audited financial statement of the bank for the fiscal year ended June 30, 2012 to the 2nd Annual General Meeting of Shareholders. It also gives me a great pleasure and a sense of pride to associate myself with such a dynamic bank with big dreams. As an entirely new entrant to the business, the past year has been a year of success and challenge for Abay Bank in expanding its operational horizon through appropriate planning, full scale implementation of banking technology ---which interconnected all our branches--- and efficient organizational development.

Through our concerted effort during the year, we have been able to build a strong, client-focused, performance-driven corporate identity for our Bank. This has been reflected in the financial performance, with a registered gross profit of 31.383 Million Birr in a merely one and half year's operation.

During the reporting period, the overall deposit mobilized by the bank has grown up to Birr 778.9 million, revealing a growth of Birr 515.5 million from the ending balance of the preceding year. The result is mainly attributed to our fast branch expansion numbering to 26 at the end of the reporting period. The total outstanding loan of the Bank has grown to Birr 452.1 million from last year's level of Birr 158.4 million. Likewise the total assets of the bank reached Birr 1.2 billion showing an increase of Birr 781.8 million (171.1%) while the paid up capital reached Birr 239 million showing an increase of 81.2 million Birr (51.4%) from the previous year.

All these achievements reveal that our bank has registered an encouraging success by all standards. The details of this Annual Report, therefore, takes you through the odyssey of our Bank during the year ended June 30, 2012 and presents before you the fruits of our successful journey.

Our efforts to incorporate innovation in our strategy and product offerings proved successful, as we surpassed the financial expectations for the year, despite numerous challenges. While we primarily focused on retail banking and development oriented project financing – which defines our policy-mandated sphere - we also entered into new segments in search of greater profitability and better service capabilities. As a result, Abay Bank today is working towards laying the foundation for a robust business strategy; highly-skilled, dedicated, young and experienced workforce; efficient organizational structure and state-of-the art technology.

We, at Abay Bank, are taking all the necessary steps to be an effective partner to every Ethiopian in fulfilling their financial dreams and aspirations. We are resolved to bridge the gap between access to financial services and those who need it most. Above all the objective of the bank is to deepen financial intermediation particularly to those who are deprived of the service and by doing so to stimulate development and earn profit. Or to use our stylized expression -which symbolizes our commitment- with

Abay Bank around, every financial venture dream is now in the realm of possibility. Abay bank has an ambition of reaching all over the country and even going beyond and provide international services.

To sustain our successful journey, the bank has planned to raise deposit levels and the paid up capital. Expansion of our branch network will also continue to be the center of our Business Development Strategy. It is also planned to construct our own premises in the metropolitan and other major towns. To that end, I call upon our shareholders to act as ambassadors of the bank - all the time in all places - in deposit mobilization, foreign currency generation and buying additional shares so as to meet the regulatory requirement of the NBE. Based on this firm foundation, together, let's now keep on moving towards a brighter future.

Thank you,



Tadesse Kassa
Chairman, Board of Directors

ACKNOWLEDGEMENT

The Board of Directors expresses its gratitude to the National Bank of Ethiopia, for the continued co-operation in various spheres of our Bank's growth and operation. The Board of Directors is also appreciative of the co-operation extended by other banking/financial institutions. It also wishes to thank various governmental and non-governmental institutions for their support in our resource mobilization effort. In particular, we would like to appreciate the continued support extended to our bank by the Amhara National Regional State and its affiliated institutions.

Our Bank also seizes this opportunity to thank all our shareholders, customers and investors for extending their support during the year and looks forward to their continued association with our Bank in the years ahead. Most importantly, we would like to warmly acknowledge and appreciate the sincere and devoted services rendered by the Bank's management and its entire staff. The Board of Directors wishes to place on record, deep appreciation of their individual and coordinated efforts.



Board of Directors & The Management



Weekly Management Meeting

PART I

PERFORMANCE REPORT



I. BACKGROUND

Almost two years have elapsed since Abay Bank was legally registered and obtained its license from National Bank of Ethiopia on July 14th 2010. In its journey during the stated period, our bank's performance in all aspects was quiet encouraging despite the huge challenges faced by the industry especially as new entrant to the market.

Generally, the Bank has shown an impressive performance during its second year of operation. This makes it a very unique bank in the country's banking history. It has achieved encouraging and successful accomplishment in aggressive branch expansion coupled with a very high record of profitability as compared to its plan as well as the performances of its predecessors and pear group.



Branch Opening

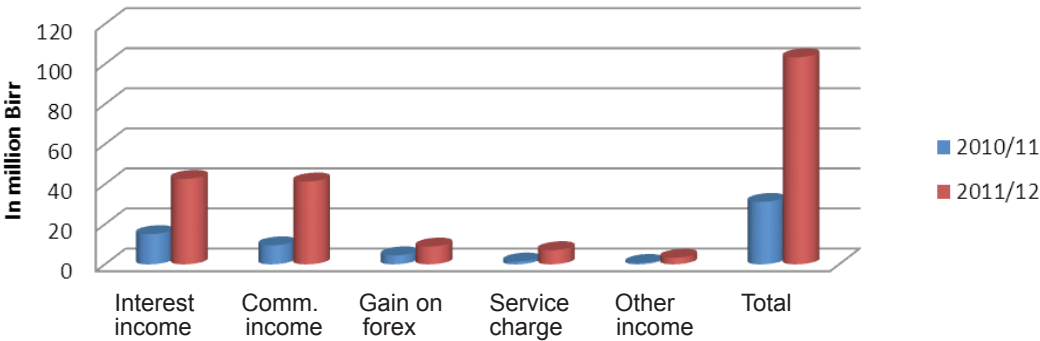
II. FINANCIAL AND OPERATIONAL PERFORMANCE

2.1 Financial Performance

i. INCOME

The Bank generated a total income of Birr 102.82 million during the year ended June 30, 2012 showing an increase of Birr 90.5 million compared to the previous eight months performance. Looking at the composition of total income in two broad categories, non-interest income accounts for 59% (Birr 60.18 million) and interest income accounts for 41% (Birr 42.67 million).

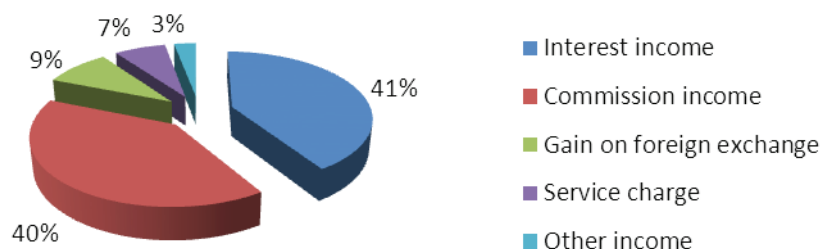
Fig.1: Comparative Income by Type



Training in Session

If we look at the major break down of the income components, interest income constituted 41% (Birr 42.7 million), followed by commission income 40% (Birr 41.4 million), Gain on foreign exchange 9% (Birr 8.9 million), service charge 7% (Birr 7.1 million) and other income 3% (Birr 3.3 million).

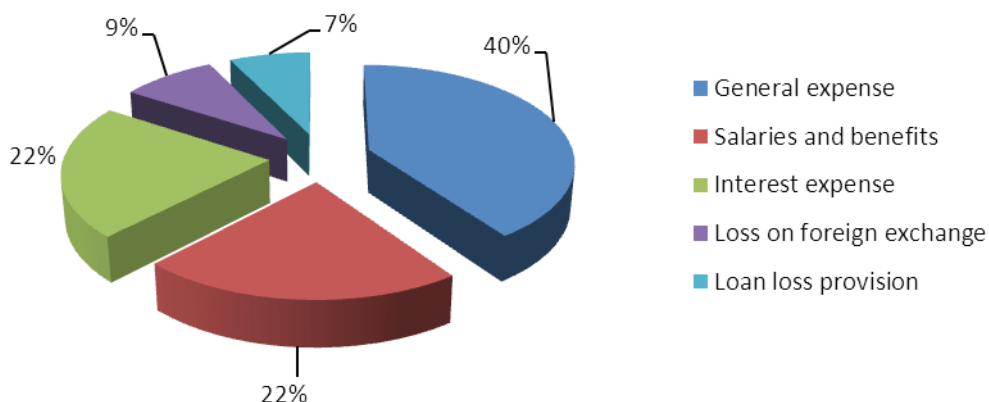
Fig.2: Income Category



ii. EXPENSE

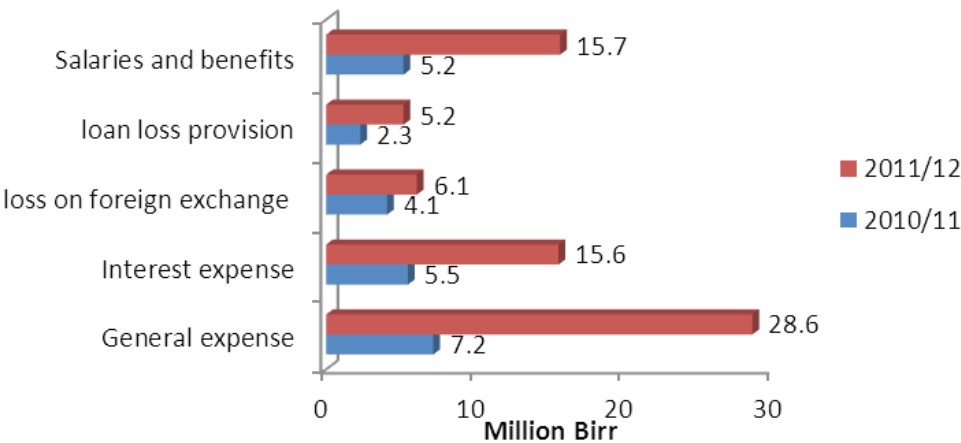
The Bank incurred a total expense of Birr 71.5 million during the year ended June 30, 2012 showing an increase of Birr 55.3 million compared to the previous eight months ending balance. Looking at the composition of expenses, general expense took the largest share accounting for 40% (Birr 28.6 million) followed by salaries and benefits, interest expense, loss on foreign exchange and loan loss provision with Birr 15.7 million (22%), Birr 15.6 million (22%), Birr 6.1 million (9%) and Birr 5.2 million (7%) respectively (Fig.3). The annual increment in expenditure amount is depicted on figure 4.

Fig.3: Composition of Expenses



The growth in expenditure amount is attributed to branch expansion and the Bank’s operational activities which results in increase in the number of employees’ salaries and general expense. The growth in deposit amount also significantly added up to the increasing interest expense.

Fig.4: Expense Category



iii. PROFIT

Despite the challenges at local and international levels which adversely affect the performance of the banking industry, Abay Bank registered profit before tax and after tax of Birr 31.383 million and 24.15 million, respectively. This result indicates an impressive performance of the Bank despite its aggressive branch expansion to increase market share and ensure its sustainable growth. Besides, the registered result makes the bank very unique one compared to its competitor’s performance during their infant stage as most of them incurred losses in their first 2-3 years of operation.

The Profitability ratios of the bank also indicate that the bank is moving on the right direction. The bank’s Return on Assets (ROA) expressed as the ratio of profit before tax to the average asset stood at 3.7% for the financial year. Likewise, Return on Paid up Capital (ROC), the most important measure of profitability for shareholders which expresses the ratio of profit after tax to the average paid up capital employed, reached 12.1%.

2.2 OPERATIONAL PERFORMANCE

Besides its amazing financial performance, balance sheet items such as deposit mobilization, loan portfolio, asset quality and paid up capital have registered outstanding performance which indicates the public confidence of our shareholders and customers.

i. DEPOSIT MOBILIZATION

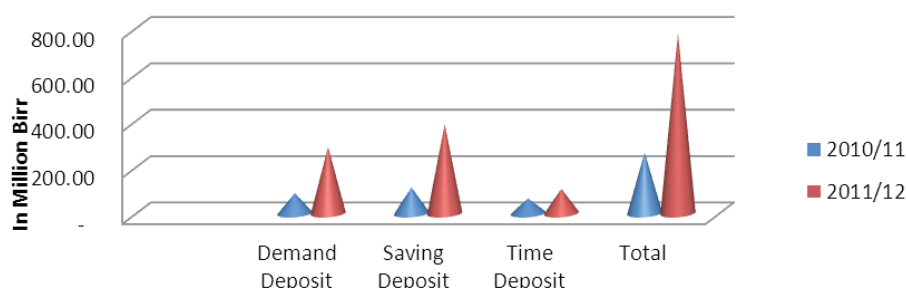
The overall deposit mobilized by the Bank has grown up to Birr 778.9 million, revealing a growth of Birr 515.5 million (196%) compared with that of the preceding 8 months ended June 30, 2011 as indicated in Table 1. The high growth rate was obtained from interest bearing and non-interest bearing deposits.

Table 1: Deposited financial resource by type (in Birr)

Deposit category	2011 eight months	2012	Increase/decrease	
			Absolute	%
Demand	86, 248, 250	287, 309, 981	201, 061,731	233
Saving	112, 555, 159	385, 505, 157	272, 944, 591	242
Time	64, 580, 000	106, 090, 000	41, 510, 000	64
Total	263, 383, 409	778, 905, 138	515, 516, 321	196

At the end of June 2012, the total number of customers who maintained deposit account with Abay Bank has reached 19,172. The actual number of accounts opened has exceeded the planned target of 12,393 by 6,233 accounts (48%) which indicate that our customer base is widening throughout all our branches thanks to the confidence of our customers on the Bank.

Fig.5: Comparison of Deposit by Type



In comparison with last year’s 8 months performance, Saving, Demand and Time Deposits recorded a positive growth rate of 233%, 243% and 64% respectively.

Fig.6: Composition of Deposit by Type

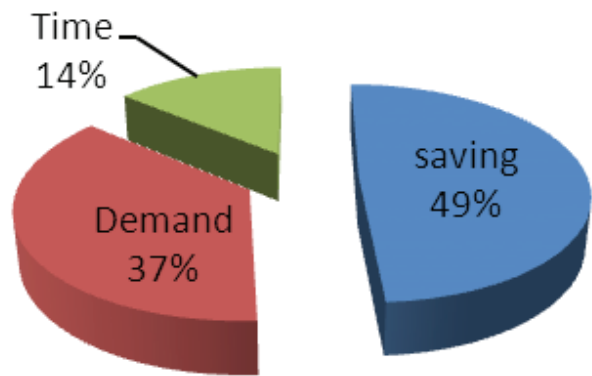
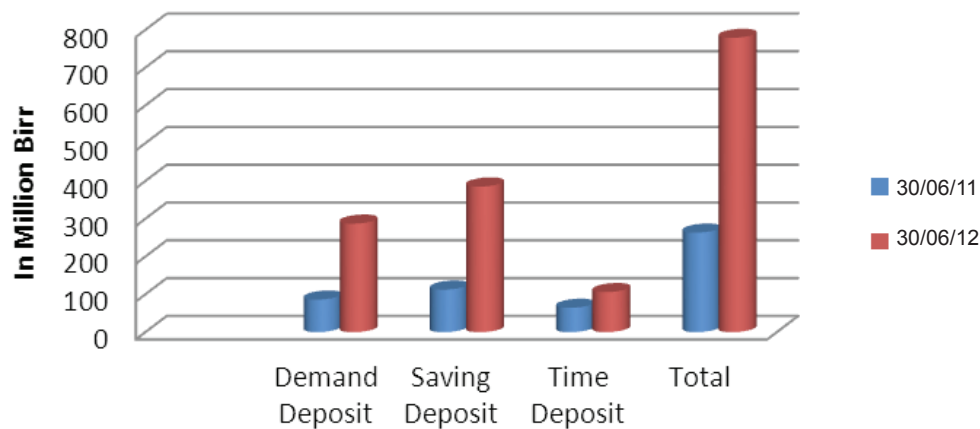


Fig.7: Composition of Deposits



ii. LOANS AND ADVANCES

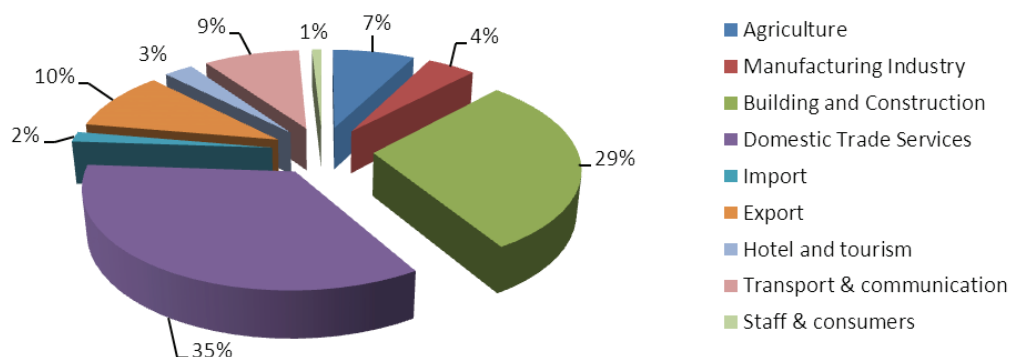
The total outstanding loan of the Bank has grown to Birr 452.1 million from last year’s performance of Birr 158.4 million. The bank has also extended guarantee facility that adds up to Birr 468.5 million of which; advance payment guarantee has the lion’s share contributing 89% of the total.

Table 2: Loan Distribution by Economic Sectors

Sector	30/06 /2011	% share	30/06 /2012	% share	Change
Agriculture	4,000,000	3	34,350,000	8	30,350,000
Manufacturing Industry	1,775,000	1	20,310,000	4	18,535,000
Mining & Quarrying			-	-	-
Building and Construction	34,609,212	23	132,090,083	29	97,480,871
Domestic Trade Services	49,243,429	32	156,729,665	35	107,486,236
Import	8,701,295	6	7,532,691	2	-1,168,604
Export	24,506,540	16	44,270,498	10	19,763,958
Hotel and Tourism	6,297,165	4	12,236,945	3	5,939,780
Transport & Communication	22,480,174	15	40,106,262	9	17,626,088
Staff & Consumers	614,558	0	3,951,266	1	3,336,708
Total	152,227,374	100	451,577,408	100	299,350,034

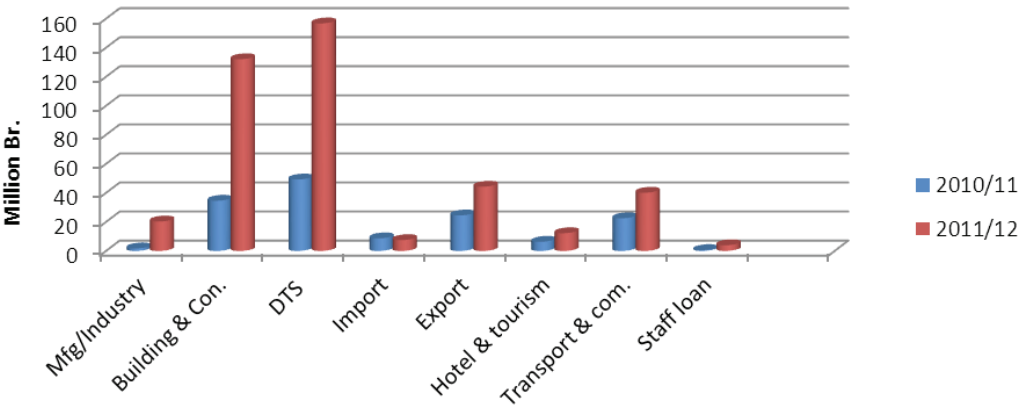
As can be observed from Table 2, the loans and advances extended by the Bank covered a wide range of economic sectors. Accordingly, during the reporting year, 35% of the total loan and advances goes to domestic trade services followed by Building and Construction (29%), Export sector (10%), Transport & Communication (9%), and Agriculture (8%).

Fig.8: Loan Disbursement by Sector



The Bank has diversified its loan portfolio by approving and disbursing loans to Export, Manufacturing and Agricultural sectors.

Fig.9: Loan Disbursement by Sector(2010/11-2011/12)



iii. TOTAL ASSET

As of June 30, 2012, total asset of the Bank reached Birr 1.2 Billion showing an increase of 171.1% (Birr 781.8 million) from the previous year. After meeting regulatory requirements like NBE bill purchase, reserve and liquidity requirements, the Bank has made the best use of its financial assets productively and efficiently.

iv. CAPITAL STATUS

The paid up capital of the Bank at the end of the year reached Birr 239 million showing an increase of 51.4% (Birr 81.2 million) from the previous year, while the subscribed capital stood at Birr 248.6 million. The number of shareholders reached 1,189 as of June 30, 2012. Total capital including undistributed profit of the bank reached Birr 272.2 million showing an increase of 72.7% (Birr 114.7 million) from the previous year. This shows that the Bank’s strength in raising its capital position by generating profit and attracting additional shareholders.

In addition to generating an amazing level of income and profit, the Bank has performed well in terms of expanding its customer base and paid up capital as per its plans to meet the NBE requirement of Birr 500 million in the next 4 years.

III. HUMAN RESOURCE

As of June 30, 2012, the total number of staff of the Bank reached 275. Our employees are recruited both from the banking and non-banking industry. Of the total staff, about 36 are in a managerial position. .

Out of the total 275 employees, 179 (65%) are male and 96 (35%) are female. The number of employees has increased by 170 compared with the preceding year which was 105 owing to branch expansion.

The bank conducted 14 different types of short term trainings for its staff members on different modalities to anchor the value of the bank to all staff, to make every staff competent on what they are performing, to smoothen and shorten the formation and acquaintance stages of the bank.

IV. INFORMATION TECHNOLOGY

With a view to deliver an efficient and modern banking service, Abay bank has successfully been able to use a modern banking technology - **oracle flexcube**, in its latest version and this would put the Bank at the forefront of the industry in terms of using state-of-the-art technology. Very recently, the Bank has successfully implemented this new technology in its full scale and is currently one of the few who possess the technology prerequisite for core-banking. Along with the installation of the new technology, the complementary human resource has also been made ready through providing the necessary training packages for frontline and back office workers.

Using this technology, we are able to connect all our branches. Agreements were signed with international money transfer agents that include Money Gram, Western Union and X-press money and related services will be rendered soon following the required training of our staff. Our bank has also entered into contract to provide cash advance service for VISA and Master Card holders through Point of Sale devices installed in selected branches.

V. NON-FINANCIAL PERFORMANCE

With the intension of maximizing customer satisfaction in line with our vision of being **“Dynamic customer-driven, innovative and financially sound premier Bank”**, the management of Abay Bank took the initiative to conduct customer survey for the year ending June 30, 2012. Although the result was encouraging, the management has stressed the need to put extra effort in elevating the currently attained level to a higher one so as to ensure even better customer satisfaction. The assessment also included survey of employee satisfaction of the Bank with a positive outcome. As is expected though, the management has vowed not to remain complacent with the result but instead endeavor more to motivate and capacitate its staff. Encouraging results were obtained from all assessments and the feedbacks will be properly utilized as inputs for future improvements in all aspects.

Similarly, Abay Bank gives due emphasis for innovation and is always laboring in ferreting out new products and services. Emanating from its vision, the Bank has already taken a series of initiatives to introduce new products and services through its research and development efforts which are in a continued progression. It also strives to adopt and implement best practices that rely on the modern technology we have already possessed and implemented at its full scale. Some of these innovative initiatives are nearing completion, while others are in pipeline. In sum, the Bank has demonstrated its conviction to invest more on innovation to further enhance our customer satisfaction level and sustained profitability.

VI. BRANCH EXPANSION

In its second year of operation, our bank has planned to expand its nine branches to 26 by the end of June 2012. Altogether, until the end of the reporting period, the number of outlying branches outside Addis Ababa has reached 21 while the remaining 5 branches are located within the capital city. In short, during the reporting period alone, additional 15 branches were opened all together of which 14 are outlying and one in Addis Ababa. As a matter of fact, the required

preparation has been made to open more branches in Addis Ababa in the coming few months. This makes our bank the most rapidly expanding private bank ever. This undoubtedly will enable the Bank to expand its market share and customer base.

The fast pace of branch expansion in our Bank indicates the underlying dedication of the Bank with the aim of serving the unbanked and under-banked areas in all the regional states thereby fulfilling its development objective in line with profit maximization for its shareholders.

VII.THE WAY FORWARD

Regarding operational aspects, we are already completing the necessary preparations to introduce shortly new products such as mobile banking, interest free baking etc... services and strengthening the already started services such as ATM (Automatic Teller Machines) and POS (Point of Sale) payment cards to fulfill our drive to serve customers 24/7 using the Bank's state of the art technology.

Aggressive deposit mobilization strategy, introducing one-window service in all branches and maintaining good quality of bank assets by establishing a sound risk management system and practice will be at the center stage of the Bank's agenda.

To curb the major problem of foreign exchange, the Bank has paid due attention to attracting prominent exporters and strengthening business relationship with prominent money transfer agents and foreign exchange earners.

Likewise, the Bank is planning to reduce rental expenses and resolve all problems related with not having own premise through investment in constructing own building. By doing so, it is believed that profitability of the company will be raised and other inconveniences associated with rental house will be curbed. For this reason, acquiring land for future construction of office buildings in the metropolis and regional towns will be an area of emphasis. It is also planned to further strengthen our fast move in branch expansion to serve unbanked and under banked areas in all regional states.

MoneyGram®
Money Transfer



ABAY BANK S.C.



ABAY BANK s.c.

PART II

AUDITOR'S REPORT





Chartered Certified Accountants (UK) and Authorised Auditors (Ethiopia)

Tel. 251-011 6180638/ 011-8961751/52 Mob. 0911 229425 /0930 034356/0930 034357/0913 135454/ 0920 253088 Fax 251-011 6621270/60
E-mail:- tmsplus@ethionet.et / tafessef@hotmail.com P.O.Box 110690 Addis Ababa - Ethiopia

INDEPENDENT AUDITORS' REPORT ON THE ACCOUNTS OF ABAY BANK SHARE COMPANY (S.C)

We have audited the financial statements of Abay Bank Share Company (S.C) set out on pages 2 to 14, which have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 5 to 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion.

BASIS OF OPINION

We conducted our audit in accordance with Generally Accepted Auditing Standards on Auditing. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements together with the notes forming part thereof present fairly in all material respects the financial position of Abay Bank Share Company as at 30 June 2012 and the results of its operation and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles and are in agreement with the accounting records of the Company.

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

Tms plus

TMS plus
Chartered Certified Accountants (UK)

Authorized Auditors (ETH)



Addis Ababa

05 September 2012

ABAY BANK SHARE COMPANY (S.C.) BALANCE SHEET AS AT 30 JUNE 2012

Currency: Ethiopian Birr

	Notes		
ASSETS			
Cash And Bank Balances			
			2011
Cash on hand	3	130,506,287	27,256,238
Deposit with local commercial banks	4	2,151,588	9,996,219
Deposit with foreign banks		165,244,347	53,684,743
Deposit with National Bank of Ethiopia	5	169,119,834	117,488,170
		467,022,056	208,425,370
Loans and advances to customer		452,147,885	158,108,065
Other assets	6	102,691,599	28,015,509
Differed charges		2,727,914	3,546,289
Investment	7	176,933,430	47,524,430
Fixed assets	8	36,377,261	11,266,219
		770,878,089	248,460,511
TOTAL ASSETS		1,237,900,145	456,885,881
LIABILITIES			
Deposits From Customers			
Demand deposits		287,309,981	86,248,250
Saving Deposits		385,505,157	112,555,159
Fixed time deposit		106,090,000	64,580,000
		778,905,138	263,383,409
Margin held on letter of credit		51,339,883	19,648,516
Other liabilities	9	56,919,209	16,260,795
Inter branch account	10	79,270,824	-
Provision for profit tax	11	7,227,591	-
		194,757,506	35,909,311
TOTAL LIABILITIES		973,662,644	299,292,719
SHAREHOLDERS' FUND			
Paid - up capital	12	239,008,750	157,842,153
Share premium		4,834,905	3,548,323
Legal reserve		6,039,026	
Profit and loss account	13	14,354,819	(3,797,314)
		264,237,501	157,593,162
TOTAL LIABILITIES AND SHAREHOLDERS' FUND		1,237,900,145	456,885,881



ABAY BANK SHARE COMPANY (S.C.) PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

INCOME

	Notes		2011
Interest income	14	42,674,848	4,899,261
Less: Interest expense	15	15,628,096	1,104,003
Net interest income		27,046,752	3,795,258
Less: Provision on loans and advances		5,205,562	1,601,881
		21,841,190	2,193,377
Commission income	16	40,769,245	4,342,822
Other income	17	13,312,191	3,101,909
		75,922,626	9,638,109

EXPENSES

Salaries and benefits	18	15,734,745	3,651,077
General and administrative	19	28,436,710	8,965,290
Board of directors' fee		199,975	-
Audit fee		52,500	-
Other expenses		115,000	819,056
		44,538,930	13,435,423

PROFIT BEFORE TAX

		31,383,697	(3,797,314)
Less: PROVISION FOR PROFIT TAX		7,227,591	-
PROFIT AFTER TAX		24,156,106	(3,797,314)
Less: LEGAL RESERVE		6,039,026	-
		18,117,079	(3,797,314)

EARNINGS PER BIRR 100 SHARES

50.54

-



ABAY BANK SHARE COMPANY (S.C.) CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

NET CASH INFLOW FROM OPERATING ACTIVITIES

		<u>2011</u>
Net Profit (Loss)	31,383,697	(3,797,314)
Depreciation and amortization	11,461,554	2,337,943
Loan loss provision	3,603,680	1,601,881
Operating profit before working capital changes	46,448,931	142,510
Increase in other assets	(74,641,037)	(15,634,108)
Increase in loans and advances	(297,643,500)	(159,709,946)
Increase in deposits	515,521,729	263,383,409
Increase in margin held on letter of credit	31,691,367	19,648,516
Increase in other liabilities	119,929,237	15,076,371
Net cash flow from operating activities	341,306,728	138,540,860

INVESTING ACTIVITIES

Acquisition of fixed assets	(35,754,221)	(6,653,624)
Increase in investment	(129,409,000)	(47,524,430)
Net cash flow from investing activities	(165,163,221.24)	(54,178,054)

FINANCING ACTIVITIES

Additional shares issued	81,166,597	16,741,798
Cash premium collected on shares issued	1,286,582	200,400
Net cash flow from financing activities	82,453,179	16,942,198

Net increase in cash and cash equivalents	258,596,686	85,670,895
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Cash and cash equivalents at beginning of the period	208,425,370	122,754,475
Cash and cash equivalents at end of the year	467,022,056	208,425,370

CASH AND CASH EQUIVALENTS

Cash on hand	130,506,287	27,256,238
Deposit with local commercial banks	2,151,588	9,996,219
Deposit with foreign banks	165,244,347	53,684,743
Deposit with National Bank of Ethiopia	169,119,834	117,488,170
	467,022,056	208,425,370



ABAY BANK SHARE COMPANY (S.C.) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

1. BACKGROUND

Abay Bank S.C was formed 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 license from National Bank of Ethiopia on July 14, 2010 and started its operation on November 4, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the major accounting policies adopted by the Company in the preparation of its financial statements.

a. Basis of Accounting

The financial statements are prepared in accordance with the historical cost conventions , generally accepted accounting principles and the laws and regulations of Ethiopia.

b. Financial Instruments

i. Classifications

A financial instrument is any contract that gives rise to the financial assets for the bank and a financial liability or equity instrument of another party. All assets and liabilities in the balance sheet are financial instruments except fixed assets, differed charges and shareholders equity.

The major financial instrument of the bank is originated loans and advances **Originated loans and advances** are loans and receivables created by the Bank providing money to debtors. Originated loans and advances comprise deposits and other balances due from banks and loans and advances customers.

ii. Recognition of financial instruments

The Bank initially recognizes financial assets and liabilities on its balance sheet on the date it becomes a party to the contractual provisions of the instrument. Any gains and losses arising from changes in value of the asset are recognize from this date. When the Bank becomes a party to the contractual terms comprising a loan and as a consequence has the legal right to receive principal and interest payments on the loan, it controls the economic benefits associated with the loan. Normally, a bank becomes a party to the contractual provisions that comprise a loan (i.e,acquires legal ownership of the loan) on the date of the advance of funds or payments to third party. As a result, a commitment to lend funds is not recognized as an assets on the balance sheet date.



ABAY BANK SHARE COMPANY (S.C.) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

iii. Derecognition of financial instruments

All financial assets are derecognized when the bank loses control over the contractual rights that comprise the assets. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished.

iv. Measurement of financial instruments

The bank measures all financial instruments initially at cost, including transaction costs.

c. Loans and advances

Loans and advances are financial instruments originated by the Bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses.

Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be presented in any loans and advances portfolio. The Bank follows the National Bank of Ethiopia Supervision of Banking Business directive Number SBB 48/2010 in determining the extent of provision for impairment losses. The Directive classifies loans and advances into the following.

i. Pass loan

Loans and advances in this category are fully protected by the current financial and Paying capacity of the borrower and are not subject to criticism. In general, loans and advances, which are fully secured, both as to principal and interest ,by cash or cash substitutes, are classified under this category regardless of past due status or other adverse credit factor.

ii. Special mention

Any loan or advance past due 30 days or more, but less than 90 days is classified under this category.

iii. Substandard

Non-performing loans or advances past due 90 days or more but less than 180 days is classified under this category.

iv. Doubtful

Non-performing loans or advances past due 180 days or more but less than 360 days is classified as doubtful.



ABAY BANK SHARE COMPANY (S.C.) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

v. **Loss**

Non-performing loans or advances past due 360 days is classified as loss.

As per this Directive the provision for impairment losses is determined as follows:

Loan category	Extent of provision required
1 Pass loan	1% of outstanding loan balances
2 Special mention loan	3% of outstanding loan balance
3 Substandard loan	20% of the net loan balance
4 Doubtful loans	65% of the net loan balance
5 Loss loans	100% of the net loan balance

Note

Net loan balance is outstanding loan balance less Net Recovery Value of collaterals.

d. **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed as per Income Tax Proclamation number 286/2002, using the pooling system. Accordingly, the depreciation rates per annum are as follows:

Computers	25 % on book value
Other assets	20 % on book value

e. **Revenue recognition**

Interest income and expense in the income statement are recognized on accrual basis. however, interest accruing on non performing loans or advances are maintained under memorandum account and are recognized as income when collected, as per the National Bank of Ethiopia Directive No SBB/32/2002 article No.5.

Fee and commission income arises on financial service provided by the bank. Fee and commission income is recognized when the related service is provided.

f. **Foreign currency**

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions. Monetary assets denominated in foreign currencies, which are stated at historical costs, are translated at the exchange rates ruling at 30 June 2012. Foreign exchange differences arising on translation are recognized in the income statement.



ABAY BANK SHARE COMPANY (S.C.) **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 30 JUNE 2012**

Currency: Ethiopian Birr

g. Cash and cash equivalent

Cash and cash equivalent consist of cash on hand and balances with the National Bank of Ethiopia, domestic and foreign banks payable on demand.

h Differed charges

Pre-operating expenses incurred for establishment of branches is accumulated and differed for amortization over five years.

2011

3. CASH ON HAND

Local currency	118,831,740	23,061,120
Imprest fund	8,000	12,500
Foreign currency	11,666,547	4,182,618
	130,506,287	27,256,238

4. DEPOSIT WITH COMMERCIAL BANKS

Commercial Bank of Ethiopia	2,151,088	8,815,817
Zemen Bank	-	1,180,403
Dashen Bank	500	-
	2,151,588	9,996,219



ABAY BANK SHARE COMPANY (S.C.) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

2011

5. DEPOSIT WITH NATIONAL BANK OF ETHIOPIA

Statutory reserve	83,000,000	39,516,000
Payment and settlement account	49,779,434	40,171,370
Issue account	36,340,400	37,800,800
	169,119,834	117,488,170

6. OTHER ASSETS

Sundry debtors	14,865,264.34	3,578,530
Supplies stock	3,926,925	1,290,930
Uncleared effect local	56,724,562	1,339,246
Prepayments	19,440,904	20,346,701
Accrued interest receivable	7,733,944	1,460,102
	102,691,599	28,015,509

7. INVESTMENTS

National Bank of Ethiopia Bill	175,575,430	47,524,430
Local share	1,358,000	-
	176,933,430	47,524,430



ABAY BANK SHARE COMPANY (S.C.) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

8. FIXED ASSETS

	Balance at 01.07.11	Additions	Reclassification (Adjustment)	Balance at 30.06.12
COST				
Office and other equipment	1,318,451	2,087,692	(150,222)	3,255,921
Furniture, fixture and fittings	3,409,072	2,426,001	(1,981,010)	3,854,063
Motor vehicles	6,794,571	7,028,113	-	13,822,684
Computers and accessories	1,536,484	23,501,432	-	25,037,917
Counter and partition	-	493,795	1,742,515	2,236,309
Box light	-	217,188	388,718	605,905
	13,058,579	35,754,221	-	48,812,800
DEPRECIATION				
Office and other equipment	175,793	616,026	-	791,819
Furniture, fixture and fittings	454,543	679,904	-	1,134,447
Motor vehicles	905,943	2,583,348	-	3,489,291
Computers and accessories	256,081	6,195,459	-	6,451,540
Counter and partition	-	447,262	-	447,262
Box light	-	121,181	-	121,181
	1,792,360	10,643,180	-	12,435,540
NET BOOK VALUE	11,266,219			36,377,261

9. OTHER LIABILITIES

		2011
Adjustment and refund payable	14,030	-
Blocking inwards	243,217	-
Blocked current account	2,672,954	267,000
Blocked saving account	101,182	-
Blocked amounts payable	7,000	11,000
Deposit for guarantee issued	421,591	-
Deposit for import clearance	34,093	-
CPO payable	23,788,629	5,527,218
Exchange payable to NBE	2,270,551	1,274,307
Employee income tax	244,794	101,923
Cost sharing payable	339	-
WHT payable	174,081	19,295
Accrued interest payable	5,654,498	222,652
Interest tax payable	82,454	16,935
TTs Payable local	5,824,120	2,158,383
Miscellaneous payable	14,000,322	6,175,077
Stamp duty charge	159,720	102,025
Accruals	51,750	-
Provident fund	26,722	-
Staff payable	229	400
Shareholders payable	956,684	-
Others	190,249	384,580
	56,919,209	16,260,795



ABAY BANK SHARE COMPANY (S.C.) **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 30 JUNE 2012**

Currency: Ethiopian Birr

10.INTER BRANCH ACCOUNT

The balance shown as inter branch account amounting to Birr 79,270,824 is due to unreconciled effect of head office and its branches.

11.PROVISION FOR PROFIT TAX

		2011
Profit before tax	31,383,697	(3,797,314)
<u>Add: Disallowed expenses</u>		
Donation	-	50,000
Entertainment	134,076.52	20,418
Penalties	10,000.00	-
	144,077	70,418
<u>Less: Tax exempted income</u>		
Interest on domestic bank deposit	168,253.98	1,358,318
Interest on treasury bills	22,906.30	-
Interest on NBE bills	3,482,215.56	157,572
Interest on foreign bank deposit	166.89	-
	3,673,543	1,515,890
	27,854,230	(5,242,786)
Loss brought forward	(3,762,260)	(2,351,842)
Taxable income	24,091,970	-
30% Profit tax	7,227,591	-

12. PAID - UP CAPITAL

	Number of shares	Par Value	
Subscribed Capital	4,973	50,000	248,650,000
Paid - up Capital	4,780	50,000	239,008,750

13. PROFIT AND LOSS ACCOUNT

Balance brought forward	(3,797,314)
Add: Prior period adjustment	35,054
	(3,762,260)
Add: current year transfer	18,117,079
	14,354,819

14.INTEREST INCOME

		2011
Interest on loans	38,844,033	3,310,595
Interest on overdrafts	157,272	72,776
Interest on deposit	168,421	1,358,318
Interest on National Bank of Ethiopia bill	3,482,216	157,572
Interest on treasury bill	22,906	-
	42,674,848	4,899,261



ABAY BANK SHARE COMPANY (S.C.)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

15.INTEREST EXPENSE

		2011
Interest on saving deposit	9,266,552	866,893
Interest on fixed time deposit	6,361,544	237,110
	15,628,096	1,104,003

16.COMMISSION INCOME

Commission income local	37,034,533.60	2,677,261
Commission income foreign	3,734,711.78	1,665,562
	40,769,245.38	4,342,822

17. OTHER INCOME

L/C opening charge	207,449	629,861
Cash surplus	65,771	2,235
Correspondent charges	30,013	3,042
Gain on foreign currency notes	222,526	9,348
Gain on foreign exchange valuation	8,777,211	1,194,596
Money bags	10	92
Postage	558	97
Service charge local	182,526	19,809
Service charge foreign	6,634,178	972,169
Telephone and telegram	636,182	17,945
Estimation and inspection fee	382,729	110,850
Sundries	2,270,319	141,866
	19,409,471	3,101,909
Less: Loss on foreign exchange valuation	(6,097,280)	-
	13,312,191	3,101,909



ABAY BANK SHARE COMPANY (S.C.) NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

18. SALARIES AND BENEFITS

		2011
Managerial staff salary	4,065,882.15	1,318,108
Non managerial staff salary	5,915,569.20	1,079,714
Overtime non Managerial staff	101.67	-
Cash indemnity allowance	332,837.53	57,906
Disturbance allowance	13,534.50	7,854
Housing allowance	173,118.60	59,375
Acting allowance	30,430.13	-
Hard ship allowance	44,472.00	-
Shifting allowance	261,500.00	19,800
Representation allowance	259,483	97,998
Maternity pay	6,586	-
Medical	136,603	20,595
Provident fund	1,021,404	247,816
Staff insurance	113,017	-
Severance pay	564	-
Training and education	905,903	55,919
Uniforms	148,285	34,086
Transportation and fuel allowance	1,972,132	565,724
Utility allowance	203,898	80,683
Registration and tuition fee	26,143	-
Other benefits	103,280	5,500
	15,734,745	3,651,077



ABAY BANK SHARE COMPANY (S.C.)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Currency: Ethiopian Birr

19. GENERAL AND ADMINISTRATIVE EXPENSES

		2011
Depreciation	10,643,180	1,795,185
Repair and maintenance	252,642	12,202
Audit fee	-	34,500
Consultancy fee	-	335,000
Directors fee	-	29,000
Legal fees	-	20,000
Municipality fees	47,407	4,000
Membership fee	76,850	130,000
License fees	14,050	4,000
Advertisement and publicity	1,247,980	334,934
Cleaning and sanitation	95,333	12,818
Correspondent charges	16,198	4,666
Donation and contribution	-	50,000
Entertainment	134,077	20,418
Insurance	553,932	122,037
Money bags	848	108
Motor vehicle inspection fees	20,854	1,548
Perdiem and travel	618,642	150,339
Meeting and accommodation	33,962	
Fuel and lubricants	357,243	59,377
Postage	18,817	2,612
Office rent	7,171,871	3,276,334
Revenue stamp	107	103
Supplies and stationeries	1,812,783	687,091
Subscription	21,827	
Communication	703,473	152,291
Transportation	683,042	105,783
Bank charges	193,647	62,213
Wages	63,512	18,450
Utilities	126,828	2,695
Amortization	818,374	545,583
Leased line for computerization	360,220	458,901
Inauguration	208,419	-
IT support	158,149	113,890
Security and janitorial service	1,599,916	344,450
General assembly	121,531	
Sundries	260,996	74,765
	28,436,710	8,965,290



20. CONTINGENT LIABILITY

The Bank has a contingent liability due to claims that may arise as the Bank has issued guarantee and outstanding import letter of credit for the total amount of Birr 434,611,871.64 and Birr 139,236,594.99 respectively.

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MONEY TRANSFER

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