



ግብይ ባንክ
Abay Bank



ANNUAL REPORT

2018/19

For the year ended | June 30, 2019

በመቆጠብ ራዕይዎን
ዕውን ያድርጉ!

**SAVE AND
ACHIEVE ...!**



ዓባይ ባንክ
Abay Bank

Tel +251 11 515 8961, +251 11 554 9735 E- mail: info@abaybank.com.et
Ziquala Complex, Jomo Kenyatta Avenue, ADDIS ABABA, ETHIOPIA

ዓባይ - ታማኝ አገልጋይ!
Abay: The Trustworthy Bank!
web: www.abaybank.com.et
f @abaybanksharecompany

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



W/ro Ethiopia Tadesse
Board Chairperson



Amlaku Asres (PhD)
Vice Chairperson



Ato Biyazin Enkuahone
Board Member



Ato Fantu Gola
Board Member



Tilaye Kassahun (PhD)
Board Member



Ato Mulat Tsega
Board Member



Ato Getachew Tefera
Board Member



W/ro Bisrat Gashawtena
Board Member



Ato Teshager Desalegn
Board Member





Ato Abraham Ejigu
Vice President - Operations



Ato Yehuala Gessesse
President



Ato Belete Dagnew
Vice President - Corporate Services



Ato Belete Kene
Director - Internal Audit



Ato Tsega Mekonnen
Director - Risk Management
& Compliance



Ato Endakemew Getnet
Director - Legal Service



Ato Desalegn Ayalew
Director - Finance & Accounts



W/ro Tsige Ayalew
Director - International Banking



Ato Dawit Ayenew
Director - Credit Management



Ato Ayalkbet Amdemariam
Director - Human Resource
Management



Ato Aduugna Abebe
Director - Branch Operations &
Resource Mobilization



Ato Daniel Legesse
Director - Strategy &
Performance
Management



Ato Christian Kassa
Director - Business
Development
and Communications



Ato Elias Berhanu
Director - Information
Technology



Ato Eyob Nigussie
Director - Facilities
Management
and Procurement



Ato Abubeker Nezir
Director - Interest Free
Banking



Board Chairperson's Message

Dear Esteemed Shareholders,

On behalf of the Board of Directors, it gives me a great pleasure and sense of pride to present the Bank's 2018/19 Annual Report. Despite the challenging circumstances, the bank remarkably performed in both financial and non-financial business endeavors.

The aggregate deposit of the Bank, including deposits collected through interest-free banking services, has gone up by 21% from the previous year's balance and reached Birr 11.6 billion. The Bank's IFB and conventional outstanding loans and advances reached Birr 7.6 billion witnessing a growth of 29% from last year's achievement.

Similarly, the paid-up capital of the Bank has grown by 26% attaining Birr 1.7 Billion, the target set for the year. Subsequently, the Bank's total capital soared up by 36% from last year's position by attaining a balance of Birr 2.5 billion.

During the year under review, the Bank has registered a magnificent growth in revenue. The total income generated from interest and non-interest income sources has increased by 40% from the previous year. The Bank registered a gross profit of Birr 683 million. This achievement is attributed to the collective commitment and effort of the Bank's staff, Management and the Board of Directors.

As part of its effort to strengthen its asset hold, the Bank has signed a DB contractual agreement with a prominent global construction firm to have its headquarters building constructed. The Bank's request for additional plot of land which accommodates its desire for an iconic headquarters office has got a positive response from the Addis Ababa City Administration and the Bank is now in the process of securing the title deed.

To enhance its sustained growth, the Bank has been involved in various groundbreaking activities. Nowadays, developing and providing customer-centric products, enhancing the quality, efficiency and accessibility of service has become crucial for the sustainable growth of the Bank. For these to happen, identifying top talents, developing and retaining competent and satisfied staff and management team are essential. To this effect, revision of processes,

systems and procedures have been undertaken throughout the year. Besides, the Bank was immensely involved in discharging its corporate social responsibilities to give back to the society it is working with.

Working hand-in-hand with the management of the Bank, the Board has focused on maintaining a balance between a robust growth and sustainability to deliver a long term value to its shareholders. In this regard, the Board continued to ensure the proper implementation of the Bank's strategic plan at its breadth, strengthening corporate governance and institutional capabilities, risk management frameworks and internal control systems.

Looking forward, the Bank is making preparations to capitalize on opportunities that can be brought about by the economic reforms that the country has embarked on. Current projects to enhance IT infrastructure and related systems upgrades, construction of own building and progress on implementation of the Bank's strategies are in line with our aspiration to be premium Bank.

Finally, on behalf of the Board of Directors and on my own behalf, I would like to take this opportunity to express my deepest appreciation and gratitude to all of you who contributed to the Bank's success. All these financial and non-financial achievements would not have been true without the cooperation of our esteemed shareholders, the dynamic management team and the energetic staff of the Bank, the National Bank of Ethiopia and our valued customers. I sincerely appreciate and count on your continued support for the future.

Thank you,

Ethiopia Tadesse
Chairperson, Board of Directors





President's Message

It is an honor and great pleasure to me to present the corporate performance of the Bank for the year ended June 30, 2019, to our esteemed shareholders, customers and all stakeholders.

The year 2018/19 was a year of remarkable achievements in most of the financial and non-financial measures. To feature out some of the remarkable financial achievements, the deposit position has soared to Birr 11.6 billion increasing by 21% from the previous year record. The Foreign Currency generated during the year exhibited a growth of 50% from last year's record. Similarly, the Bank's revenue went up by 40% from the previous year and generated an income worth of Birr 1.8 billion in the year just ended. Accordingly, the Bank attained a record-high profit of Birr 683 million and grew up by 63% from last year's balance.

During the year, the Bank's total loans and advances reached Birr 7.6 billion, showing an upsurge of 29% against the previous year same period. Likewise, the total capital and asset of the Bank reached Birr 2.5 billion and 15 billion growing by 36% and 23% respectively, from their preceding year records.

In non-financial respects, the bank has been commendable in being accessible on conventional and alternative service delivery channels. Accordingly, the bank has opened 30 new branches in the year, amassing its operational branches to 192. Likewise, 25 new ATM machines were installed and 33 additional Abay Bedeje Agents were recruited to deliver banking services at various locations where the total number of ATMs and Agents reached 65 and 282 respectively. The Bank's customer base has reached 625,000 revealing a trajectory of 31% from the previous year the same period. Likewise, the number of Card, Mobile and Internet banking users increased by 59%, 69% and 27%, respectively, from their subsequent records of 2018. New products and services were innovated and assorted with existing customer services.

However, all these remarkable achievements were not without challenges. The undergoing national socio-political reforms on the one hand, public unrests on the other hand, were a mixture of the phenomenon of the year impacting Abay in particular and the banking sector in general. Coupled with these changes, foreign currency shortage, fierce competition in deposit mobilization, up surging of inflation and market slowdowns, were the features of the year.

Furthermore, lack of office buildings and increasing rental prices; unstable market operations especially in Hotel and Tourism, Construction and Transport sectors; the power outages and network interruptions, among others, were the specific performance deterrents.

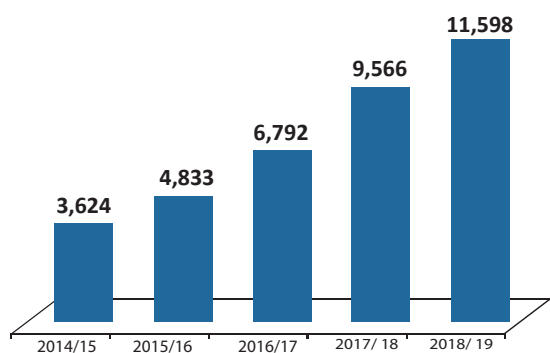
Despite all these multi-faceted and interwoven hurdles, the bank remained profitable. As always, we were attuned to the execution of the Bank's strategy. Much of our effort was synergized in correcting our limitations, in exploiting the opportunities and mitigating the difficulties. Consequently, the year 2018/19 was marked by notable achievements in both financial and non-financial respects.

Finally, I would like to take this opportunity to express my sincere thanks to the management and employees of the Bank, our valued customers, the National Bank of Ethiopia and other stakeholders for your delivery, leadership, guidance and the Board of Directors and the shareholders, since without their profound leadership and support it is unthinkable to meet the aforementioned performance records.

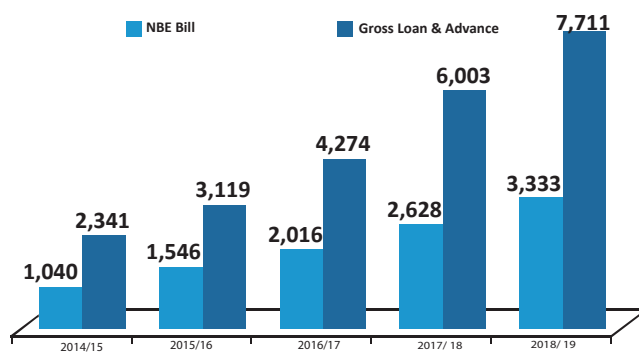
Thank you!

Yehuala Gessesse
President

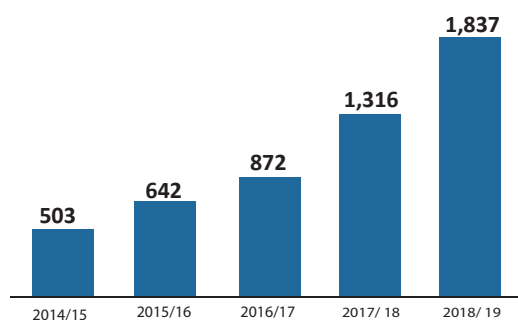
Highlights of Major Achievement



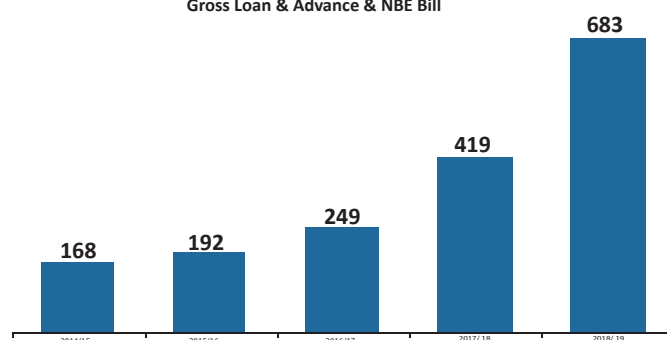
Total Deposit (In Million Birr)



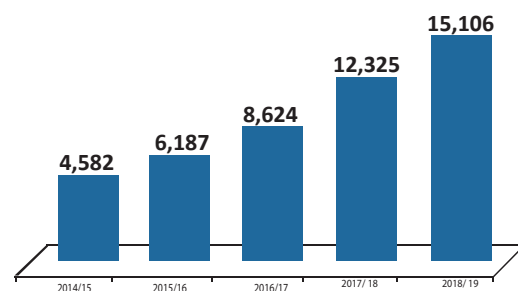
Gross Loan & Advance & NBE Bill



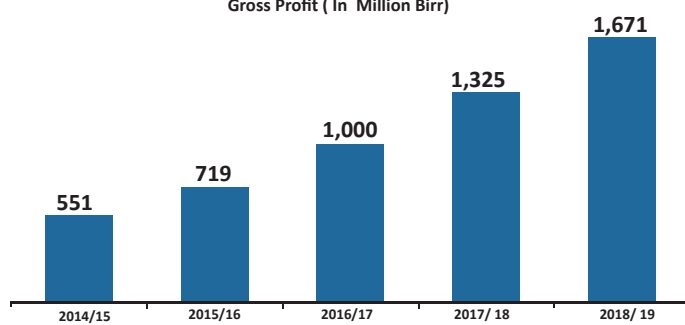
Total Operating Income (In Million Birr)



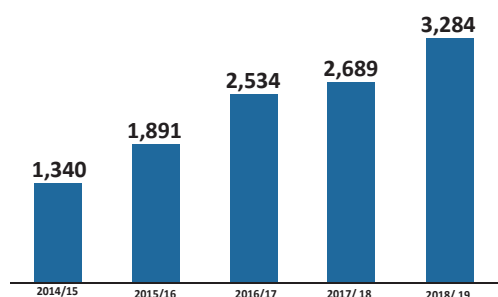
Gross Profit (In Million Birr)



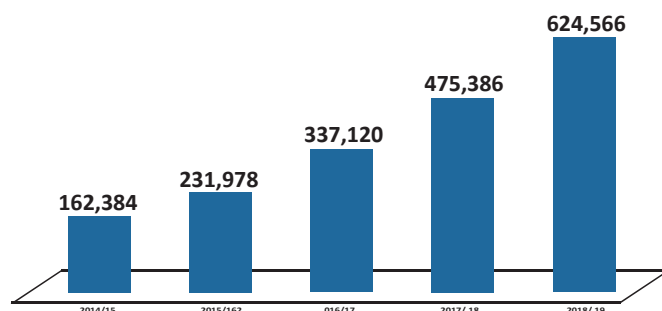
Total Assets (In Million Birr)



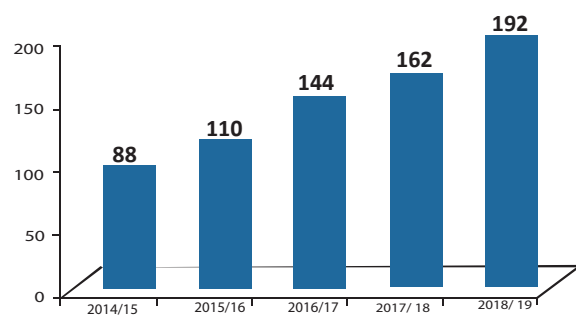
Paid - up Capital



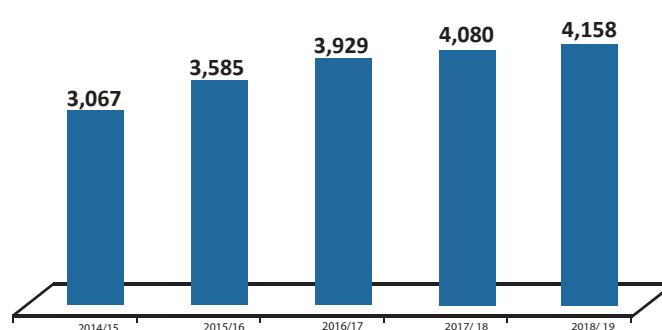
No. of Employees



NO. of Customers



No. of Branches



No. of Shareholders



Photo Gallery



Board of Directors' Meeting



Management Meeting



Sharia Advisory Meeting

Second Round Foreign Currency Mobilization Campaign Prize Winner



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ሒሳብዎን ያንቀሳቅሱ !

ACCESS YOUR ACCOUNT AND
TRANSFER WHEREVER, WHENEVER !



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Abay Bank

PART I

THE BOARD OF DIRECTORS' REPORT



PART I: THE BOARD OF DIRECTORS' REPORT

The Board of Directors of Abay Bank S.C. is pleased to present the Annual Performance Report of the Bank for the year ended June 30, 2019. This report contains two major parts. The first part contains a broader picture of the major operational, financial and non-financial performances; while 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

During the year just ended, the total deposits of the Bank reached a record high of Birr 11.6 billion showing an increment of Birr 2 billion from its previous year record. The Bank's aggregate deposit has witnessed a growth of 21% through the sustained effort of the staff, the management and the Board of Directors. From the total deposit Birr 8.1 billion is collected through savings while demand deposit contributed Birr 2.5 billion. Deposits mobilized through time deposit, which declined by 31% from the previous year, stood at Birr 939 million. Compared to the previous year's record, both saving and demand deposit mobilization performance showed a growth rate of 32% and 22% respectively. During the year, deposit mobilized through Interest-Free Banking service has reached Birr 462 million, growing by 60% from last year's record.

The total number of customers, including customers of Interest-Free Banking Service, has reached 624,566 as of June 30, 2019, growing by 31% from last year's record. The significant growth in customer base indicates the public confidence on the bank is growing incessantly.

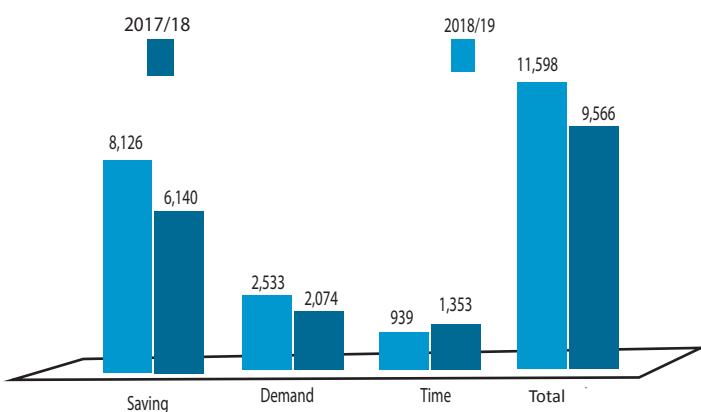


Figure 1. Deposit By Type (in Million Birr)

The share of Savings and Demand Deposits, accounted for 70% and 22% of the total deposit respectively, while the share of Fixed Time Deposit declined to 8% from last year's proportion of 14%.

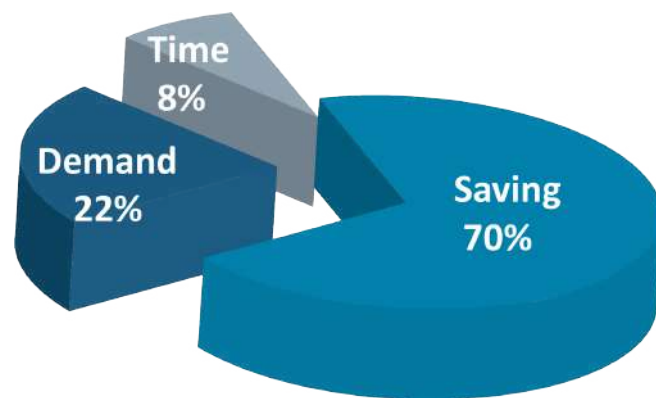


Figure 2. Share of Deposit by Type

1.1.2. Loans and Advances

In the year just ended, the total loans and advances reached Birr 7.6 billion showing a growth of 29% from last year the same period. When we see the distribution of Loans and Advances by economic sectors, 35% of the total loans and advances were availed to International Trade; while Domestic Trade Service accounted for 22% share. On the other hand, 17% of loans and advances are disbursed to Housing and Construction, 8% to Transport and Communication sectors, while the remaining sectors accounted for 18%

Table1: Loans and Advances by Sectors (in million Birr)

No.	Sector	2018/19	
		Amount	Share
1	International Trade (Import-Export)	2,799	36
2	Housing & Construction	1,327	17
3	Transport & Comm.	616	8
4	Domestic Trade Service	1,685	22
5	Manufacturing	493	6
6	Consumers Loan	513	7
7	Hotel & Tourism	201	3
8	Agriculture	77	1
	Total	7,711	100



Some of Beneficiaries of Loans

1.1.3. International Banking Operation

Despite the growing challenges and fierce competition in foreign currency earning, we managed to register a growth of 50% compared to the preceding year. To enhance its foreign currency earnings, the bank has devised various strategies including the implementation of various incentive mechanisms. To this end, therefore, Prize linked foreign currency scheme has been conducted for the second successive year.

During the year, due emphasis was given for the export sector and the proportion of foreign currency mobilized from the export sector took the lion's share (84%) followed by SWIFT (7%), money transfer agents (3%) and others (6%).

In an attempt to enhance the number of transfer agents, we were able to recruit two additional money transfer agents and attaining eleven on aggregate, while working in harmony with the existing ones. Likewise, attempts have continued to establish additional correspondent banks and RMA relationships where we have registered encouraging results.

1.2. Financial Performances

1.2.1. Total Asset

As of June 30, 2019, the total asset of the Bank reached Birr 15.1 billion showing an increase of 23% from the previous year record. The significant growth was hugely driven by the growth in loans and advances followed by growth in long term investment on NBE Bills.

1.2.2. Capital

During the period under consideration, additional capital of Birr 346 million was raised from shareholders and the paid-up capital of the bank reached Birr 1.7 billion increasing by 26% from its previous year record. Whereas, the total capital of the bank has increased by 36% and reached Birr 2.5 billion.

1.2.3. Income

In the reporting period, the bank generated a total income of Birr 1.8 billion demonstrating an overall growth of 40% from the previous year's record. In terms of income composition, 61% of the revenue was generated through interest income followed by other incomes and commission income taking shares of 29% and 11% respectively.

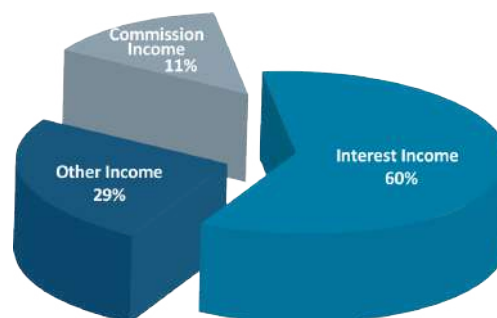


Fig 3. Income Composition

1.2.4. Expense

The total expense incurred by the bank during the year was Birr 1.2 billion, exhibiting a 29% upsurge from the prior year's record. As compared to the previous year salary and benefit expenses have increased by 34% while general expense and interest expenses have gone up by 31% each. On the other hand, provision on loans and other assets has declined by 17%. From the total expense the share of Interest took 41%, while expenditure for Salary and Benefits account for 30%. The share of general expenses and provisions on loans and other assets is 25% and 4% respectively.

Table 2: Performance of Major Expense Category (in million Birr)

Items	Ending Year		Growth	
	2018/19	2017/18	Absolute	%
Interest Expense	469	358.0	111	31
Salaries & Benefits	349	260	89	34
General Expense	284	217	67	31
Provision on Loans and Others	52	63	(11)	(17)
Total Expense	1,154	898	256	29

1.2.5. Gross Profit before Tax

Profit before tax registered a record high and reached Birr 683 million for the year ended on 30 June 2019, demonstrating a 63% growth from the prior year's record of Birr 419 million.

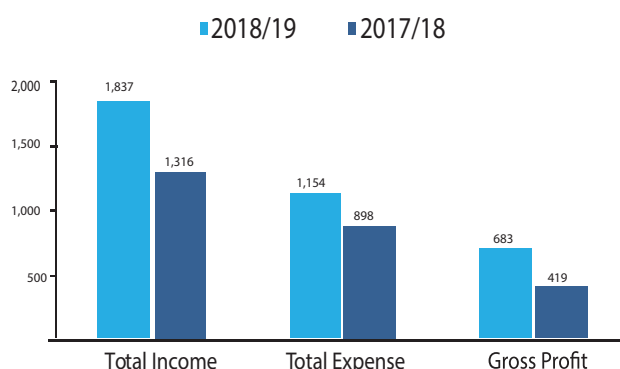


Figure 4. Gross Profit (in Million Birr)

1.3. Non-Financial Performance

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

1.3.1. Branch Expansion

As part of enhancing service accessibility, the bank strived to deliver its services in a most convenient and nearby locations to customers. To this effect, the bank has opened 30 additional branches during the year and out of which 15 branches are opened in Addis Ababa while the rest in various regional towns across the country, making the total number of branches to reach 192 as of June 30, 2019.



Branch Inauguration Ceremony

1.3.2. Human Resource Management

During the budget year, the bank has created additional job opportunity for 595 citizens following the increase in the number of branches and volume of activities of the bank. Accordingly, the total number of both permanent and outsourced employees rose to 3,284. As part of acquainting the management team and the staff as a whole with the required competencies, the Bank has provided various in-house and external training for 3,319 permanent employees in both technical and developmental regards.

1.3.3. E-Banking and Information Technology

Nowadays, most banking services have gone digital where quests for convenience and accessibilities are at the center. In this regard, the bank continued to modernize its IT systems either through the acquisition of state of the art banking technologies or through development of new systems by internal capacities.

On the other hand, service outreach through technology platforms have been enhanced by deploying 25 additional ATMs, achievement the number of Point of Sale machines to reach 76 and by on-boarding 282 Abay Bedeje Agents throughout the country. Meanwhile, a lot of coordinated activities have been undertaken to broaden the number of users and the number of transactions processed through these digital banking services where significant growth is recorded during the year. To this end, the number of ATM card-holders reached 100,133; and the number of mobile and internet banking service users also rose up to 94,595 and 3,136, 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 impacts on the well-being of the society. During the period, a total of more than Birr 15.6 million was provided in aggregate to support Beautifying Sheger, a project proposed by our Prime Minister, to support displaced people in various regions of the country and other charity activities.



Participation of Plantation

1.3.5. Risk Management and Compliance

Nowadays deploying prudent risk management system has become vital to players in the financial sector like ours. To this end, the bank reviewed internal guidelines, procedures and policies to maintain strong corporate Risk management Framework supported by effective governance where the Board of Directors closely reviews the status of senior management's actions on any non-compliances reported by internal control or Risk management functions.

The Senior Management, on the other hand, has integrated the overall Risk management frameworks to overall risk management process to ensure that the en-

tire operation is being carried out in compliance with internal rules and regulatory requirements to protect the bank and all the stakeholders from unprecedented risks or from those risks inherent to the sector.

1.4. The Way Forward

Though the competition in the industry is expected to be getting fiercer, we will strive to keep the growth momentum registered in previous years taking into account the expected economic stimulation driven by the on-going economic reform agenda of the Ethiopian government and the government's move to enhance peace and stability in the country.

As part of our strategic initiatives, ground works are under way to modernize the bank's IT infrastructures and system by acquiring state of the art Core-Banking System and related infrastructures on the one hand and launching construction of Headquarters and other regional offices on the other hand will be among our major objectives of the year besides our core operations .

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ገንዘብዎን በቀጥታ ይቀበሉ !

RECEIVE YOUR MONEY
ON TIME ...!



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INTEREST FREE
BANKING SERVICE

SHARIAH COMPLIANCE BANKING SERVICES

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ዋዲያህ የተቀማጭ ሒሳብ

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የፋይናንስ አገልግሎቶች

መራባህ

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የውጭ ገንዘብ ምንዛሪ

የዓለም አቀፍ ንግድ ድጋፍ



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Abay Bank

PART II

AUDITORS' REPORT



Abay Bank S.C.
Annual Financial Statements
For the year ended 30 June 2019
Directors and statutory information

Directors

	<u>Title</u>	<u>Appointment date</u>
Ethiopia Tadesse	Chairperson	December 26,2018
Dr. Amlaku Asres	Vice chairperson	December 26,2016
Bisrat Gashawtena	Member	December 26,2016
Getachew Tefera	Member	December 26,2016
Fantu Golla	Member	December 26,2016
Teshager Desalegn	Member	December 26,2016
Dr. Tilaye Kassahun	Member	December 26,2016
Mulat Tsega	Member	December 26,2016
Biyazen Enkuanhone	Member	June 16,2017

Executive management

Yehuala Gessesse	President	August 17,2015
Abraham Ejigu	V/P Operations	May 27,2015
Belete Dagneu	V/P Corporate Services	October 12,2015
Belete Kene	Director - Internal Audit	October 7,2015
Endakmew Getnet	Director - Legal Service	November 11,2015
Tsega Mekonnen	Director - Risk and Compliance	December 01,2011
Daniel Legesse	Director - Strategy & Planning	December 05,2011
Elias Brehanu	Director - Information Technology	September 03,2018

Independent auditor

TMS plus
 Chartered Certified Accountants (UK)
 Authorised Auditors (ETH)
 Addis Ababa
 Ethiopia

Principal bankers

Aktif Yatirim Bankasi A.S, Istanbul
 Bank Of Africa Mer-Rouge, Djibouti
 Bank Of Beirut Sal, Beirut
 Bank Of Beirut (Uk) Ltd, London
 Bank Of Beirut Sal, Cyprus
 CAC International Bank, Djibouti
 EBI SA Group Eco Bank, Paris La Defense
 KCB Bank Kenya Limited, Kenya
 East Africa Bank, Djibouti
 Exim Bank (Djibouti) Limited, Djibouti
 ODDO Bhf Attiengesellschaft, Frankfurt Main

Abay Bank S.C.

Report of the Directors

The directors submit their report together with the financial statements for the year ended 30 June 2019, 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 2019 has been transferred to retained earnings. The summarised results are presented below.

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Total operating income	1,352,587	951,417
Profit / (loss) before tax	683,013	418,546
Tax (charge) / credit	(181,424)	(101,561)
Profit / (loss) for the year	501,589	316,985
Other comprehensive income / (loss) net of taxes	3,641	(20,283)
Total comprehensive income/ (loss) for the year	505,230	296,702
Earnings per share (Birr)	343.36	284.28

Directors

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



Abay Bank 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 to 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 Bank's 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
President





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 specified on page 3-42, which comprise the statement of financial position as at 30 June 2019, the statement profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year then 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 2019, 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 the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As described in notes 11 and 12 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 intend 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.



Providers of Audit and Assurance, Management Consultancy and Tax Advisory Services



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, recommend approval of the financial statements.

Tafesse Shisema & Ayalew
 Tafesse, Shisema and Ayalew Certified Audit Partnership
 Chartered Certified Accountants (CICA)
 Authorized Auditors (ETH)



Addis Ababa
 04 November 2019

ABAY BANK S.C.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

		30 June 2019	30 June 2018
	Notes	Birr'000	Birr'000
Interest income	5	1,103,991	873,302
Interest expense	6	(468,705)	(358,001)
Net interest income		635,286	515,301
Fee and commission income	7	533,233	373,901
Fee and commission expense	8	(15,701)	(6,946)
Net Fee and commission income		517,532	366,955
Net gain on foreign exchange valuation	9	181,708	59,606
Other operating income	10	18,061	9,555
		199,769	69,161
Total operating income		1,352,587	951,417
Loan impairment charge	11	(48,264)	(55,432)
Other Assets Impairment Charge	12	(3,868)	(7,106)
Net operating income		1,300,455	888,879
Personnel expenses	13	(348,971)	(259,902)
Depreciation	22	(36,163)	(29,441)
Amortization Intangible assets	23	(5,113)	(4,260)
Other operating expenses	14	(227,195)	(176,730)
Profit before tax		683,013	418,546
Income tax expense	15	(181,424)	(101,561)
Profit after tax		501,589	316,985
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified into profit or loss:			
Re-measurement gain/(loss) on retirement benefits obligations	30	(8,432)	(7,103)
Financial assets at FVOCI (equity investments)	19	12,073	
Deferred tax (liability)/asset on re-measurement gain or loss			(13,180)
		3,641	(20,283)
Total comprehensive income for the period		505,230	296,702
Earnings per share (Birr)	32	343.36	284.28

The notes on pages 7 to 42 are an integral part of these financial statements.



ABAY BANK S.C
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

		30 June 2019	30 June 2018
	Notes	Birr'000	Birr'000
ASSETS			
Cash and bank balances	16	3,262,993	2,918,932
Loans and advances to customers	18	7,597,183	5,898,455
Equity Investments	19	60,244	37,102
Other Financial assets	20	3,680,462	3,024,709
Non Financial assets	21	149,319	126,623
Property, plant and equipment	22	304,706	254,178
Intangible Assets	23	20,513	25,626
Right of land use	24	26,425	26,457
Non current asset held for sale	25	4,452	12,977
Total assets		15,106,297	12,325,060
LIABILITIES			
Deposits from customers	26	11,598,383	9,466,089
Deposits from other Banks	27	-	100,000
Current tax liabilities	15	181,424	79,046
Financial liabilities	28	747,552	771,193
Non financial liabilities	29	82,509	71,716
Retirement benefit liability	30	33,631	20,357
Net deferred tax liabilities	15	5,346	13,180
Total liabilities		12,648,845	10,521,581
EQUITY			
Share capital	31	1,670,608	1,325,000
Share premium	31	28,087	25,557
Retained earnings	33	377,565	235,395
OCI-Defined employee benefit	30	(15,535)	(7,103)
OCI-Equity investment	19	12,073	-
Legal reserve	34	350,027	224,630
Regulatory risk reserve	35	34,627	-
		2,457,452	1,803,479
Total equity and liabilities		15,106,297	12,325,060

The notes on pages 7 to 42 are an integral part of these financial statements.

The financial statements on page 7 to 42 were approved and authorized for issue by the board of directors on 4th November 2019 were signed on its behalf by:

Ethiopia Tadesse
 Chairperson of Board of Directors

Yehuala Gessesse
 President



ABAY BANK S.C
STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Share capital Birr'000	Share Premium Birr'000	Retained earnings Birr'000	Other reserves Birr'000	Legal reserve Birr'000	Regulatory risk reserve Birr'000	OCI-Equity investment Birr'000	
As at 1 July 2018	1,325,000	25,557	235,395	(7,103)	224,630	-	-	1,803,479
Issues of ordinary shares								-
Profit for the year	31	345,608	2,530	-	-	-	-	348,138
Other comprehensive income:			501,589	-	-	-	-	501,589
Dividend paid			(235,395)	(1,080)				(235,395)
Board remunerations			(1,080)					(1,080)
Re-measurement on defined benefit plan				(8,432)				(8,432)
OCI-Equity investment							12,073	12,073
Regulatory risk reserve	34		(125,397)		125,397	34,627		34,627
Transfer to legal reserve			2,454					2,454
Prior Year adjustment								-
As at 30 June 2019	1,670,608	28,087	377,565	(15,535)	350,027	34,627	12,073	2,457,453
As at 1 July 2017	1,000,000	22,616	121,274	(934)	145,384	18,728	-	1,307,068
Issues of ordinary shares								-
General reserve reversal		325,000	2,941	-	-	(18,728)		327,941
Profit for the year	31		18,728	-	-	-		316,985
Other comprehensive income:			316,985	-	-	-		316,985
Dividend paid			(141,446)					(141,446)
Board remunerations			(900)					(900)
Re-measurement on defined benefit plan				(6,169)				(6,169)
OCI-Equity investment							-	-
Regulatory risk reserve	34				79,246	-		-
Transfer to legal reserve			(79,246)					-
Prior Year adjustment								-
As at 30 June 2018	1,325,000	25,557	235,395	(7,103)	224,630	-	-	1,803,479

The notes on pages 7 to 42 are an integral part of these financial statements.



ABAY BANK S.C
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash flows from operating activities			
Cash generated from operations	36	1,025,351	1,865,883
Income tax paid	15	(83,028)	(58,992)
Net cash (outflow)/inflow from operating activities		942,322	1,806,891
Cash flows from investing activities			
Purchase of investment securities	20	(611,679)	(835,366)
Purchase of equity investment	19	(11,069)	(10,632)
Purchase of leasehold land	24	(474)	172
Purchase of intangible assets	23	-	(21,188)
Purchase of property, plant and equipment	22	(86,702)	(38,352)
Proceeds from sale of property, plant and equipment	25	-	-
Net cash (outflow)/inflow from investing activities		(709,924)	(905,366)
Cash flows from financing activities			
Dividend paid	33	(235,395)	(141,445)
Proceeds from issue of shares	31	348,138	327,941
Payment of board remuneration		(1,080)	(900)
Net cash (outflow)/inflow from financing activities		111,663	185,596
Net increase/(decrease) in Cash and bank balances		344,061	1,087,121
Cash and Bank balances at the beginning of the year	16	2,918,932	1,831,811
Effect of exchange movement on Cash and bank balances		344,061	1,087,121
Cash and bank balances at the end of the year	16	3,262,993	2,918,932

The notes on pages 7 to 42 are an integral part of these financial statements.



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1 General information

Abay Bank SC 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 Abba.
 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. (stated on note 17).

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 S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

(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	<u>Estimated useful life</u> (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 S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2.11 Non-current assets held for sale

Repossessioned 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 Leases

Leases where substantially all the risks and rewards of ownership of an asset are transferred to the Bank are classified as finance leases. Upon initial recognition, the present value of the lease payments is recognized as a receivable. Subsequently, Lease income is recognized to the profit and loss account on a straight-line basis over the period of the lease. Leases where substantially all the risks and rewards of ownership of an asset are not transferred to the Bank are classified as an operating lease. Operating lease payments such as lease hold land and office rentals are charged to profit or loss on a straight-line basis over the period of the lease.

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;



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 comprise 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 comprise 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.



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 at amortized cost

	30 June 2019			
	Birr'000			
	Stage 1	Stage 2	Stage 3	Total
Stage 1	7,132,426			7,132,426
Stage 2		348,462		348,462
Stage 3			230,599	230,599
Total gross carrying amount	7,132,426	348,462	230,599	7,711,487
Loss allowance	57,922	6,027	50,355	114,304
Carrying amount	7,074,503	342,435	180,245	7,597,183

	30 June 2018			
	Birr'000			
	Stage 1	Stage 2	Stage 3	Total
Stage 1	5,489,424	-	-	5,489,424
Stage 2	-	315,099	-	315,099
Stage 3	-	-	198,181	198,181
Total gross carrying amount	5,489,424	315,099	198,181	6,002,704
Loss allowance	38,194	2,360	63,695	104,249
Carrying amount	5,451,230	312,739	134,486	5,898,455

4.2.3 Credit concentrations by sector

The Bank monitors credit risk by sartorial distribution against its own risk concentration limit. An analysis of concentrations of credit risk at 30 June 2019 is give below.

Sectors	30 June 2019	30 June 2018
	Birr'000	Birr'000
Agriculture	77,140	74,631
Construction and Building	1,327,306	1,122,526
Consumer Loan	513,081	341,492
Domestic Trade Services	1,848,409	1,165,014
Export and Import	2,726,547	1,837,813
Hotel and Tourism	167,322	190,571
Manufacturing and Industry	492,970	475,054
Transport and Communication	558,712	795,605
Gross amount	7,711,487	6,002,705
- Less impairment	(114,304)	(104,250)
	7,597,183	5,898,455

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	30 June 2019				
	Birr'000				
	Building	Machinery	Truck	Others	Total Collaterals
Agriculture	68.328	-	1.469	7.344	77.140
Construction and Building	757.918	207.058	319.247	43.083	1.327.306
Consumer Loan	470.123	-	42.958	-	513.081
Domestic Trade Services	1.457.061	7.103	175.723	44.929	1.684.817
Export and Import	974.721	-	293.358	1.530.715	2.798.795
Hotel and Tourism	187.428	-	862	12.611	200.901
Manufacturing and Industry	288.387	2.590	8.819	193.173	492.970
Transport and Communication	43.145	6.986	547.619	18.726	616.477
Gross amount	4,247,112	223,738	1,390,055	1,850,582	7,711,487
- Less impairment					(114,304)
					7,597,183

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 at amortized cost (on balance sheet exposures)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 July 2018	38,194	2,361	63,695	104,250
Day one IFRS 9 transition adjustment	(452)	3,122	(40,880)	(38,210)
Adjusted balance at 1 July 2018	37,742	5,483	22,815	66,040
Transfer to stage 1 (12 months ECL)	4,740	(1,129)	(3,611)	
Transfer to stage 2 (Lifetime ECL not credit	(1,538)	3,110	(1,572)	
Transfer to stage 3 (Lifetime ECL credit	(721)	(221)	942	
Net remeasurement of loss allowance	597	(429)	36,264	36,433
New financial assets originated or purchased	40,155	2,183	950	43,288
Financial assets derecognized	(23,052)	(2,970)	(5,434)	(31,456)
Balance as at 30 June 2019	57,922	6,027	50,355	114,304

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:



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Ratio of net liquid assets to deposits

	30 June 2019	30 June 2018
At Close of the year	27.5%	31.3%
Average for the year	29.9%	24.9%
Maximum for the year	32.4%	31.3%
Minimum for the year	27.3%	19.0%

The table below summarizes the Bank's liquidity risk as at 30 June 2019, categorized into relevant maturity groupings based on Contractual maturity date.

	Below 1 year Birr'000	1-3 years Birr'000	over 3 years Birr'000	Non Maturing Birr'000	Total Birr'000
June 30.2019					
Financial Assets					
Cash and bank balances	3.262.993				3.262.993
Loans and advances to customers	1.911.694	2.774.850	2.910.639		7.597.183
Equity investments				60.244	60.244
Other Financial Assets	853.279	1.753.020	1.223.482		3.829.781
Total Financial Assets (a)	6.027.966	4.527.870	4.134.121	60.244	14.750.201
Financial Liability					
Deposits from customers	3.220.373	2.893.980	5.484.030	-	11.598.383
Deposits from other banks		-	-	-	-
Other liabilities	607.911	222.150	-		830.061
Total financial liabilities (b)	3.828.284	3.116.130	5.484.030	-	12.428.444
NET Mismatch (a - b)	2.199.682	1.411.740	(1.349.909)	60.244	2.321.757
Cumulative Mismatch	2.199.682	3.611.422	2.261.513	2.321.757	4.643.514
30 June 2018					
Financial Assets					
Cash and bank balances	2.918.932				2.918.932
Loans and advances to customers	1.794.257	2.367.670	1.736.528		5.898.455
Equity investments				37.102	37.102
Other Financial Assets	652.441	1.383.263	989.005		3.024.709
Total Financial Assets (a)	5.365.630	3.750.933	2.725.533	37.102	11.879.198
Financial Liability					
Deposits from customers	2.622.339	2.645.940	4.197.810	-	9.466.089
Deposits from other banks	100.000	-	-	-	100.000
Other liabilities	710.693	60.500			771.193
Total financial liabilities (b)	3.433.032	2.706.440	4.197.810	-	10.337.282
NET Mismatch (a - b)	1.932.598	1.044.493	(1.472.277)	37.102	1.541.916
Cumulative Mismatch	1.932.598	2.977.091	1.504.814	1.541.916	3.083.831

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.



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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 2019 was Birr 412.6 million.

The table below summarizes the foreign currency exposure as at 30 June 2019 and 30 June 2018:

*Foreign currency
denominated
balances*

Cash and bank balances	30 June 2019	30 June 2018
	Birr'000	Birr'000
USD	371,688	1,109,342
GBP	2,844	729
Euro	38,054	6,843
Total	412,586	1,116,914

(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 2019 Birr'000			30 June 2018 Birr'000		
	Carrying Amount	10% Appreciation	10% Depreciation	Carrying Amount	10% Appreciation	10% Depreciation
USD	371,688	37,169	(37,169)	1,109,342	110,934	(110,934)
GBP	2,844	284	(284)	729	73	(73)
Euro	38,054	3,805	(3,805)	6,843	684	(684)
Total	412,586	41,259	(41,259)	1,116,914	111,691	(111,691)

At 30 June 2019 if the Birr had weakened/strengthened by 10% against the major trading currencies, with other variables held constant, profit before tax would have been lower/higher 41.3 million Birr.



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(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.

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.

	30 June 2019		
	Carrying Amount	10% Increase	10% Decrease
Interest rate risk			
Interest Bearing assets			
NBE Bills	3,386.441	338.644	(338.644)
Loans and Advance to Customers	7,597.183	759.718	(759.718)
Fixed Time deposit	101.744	10.174	(10.174)
Total Interest Bearing assets	11,085.368	1,108.537	(1,108.537)
Interest Bearing liabilities			
Deposits from banks			
Deposits from customers	10,659.577	1,065.958	(1,065.958)
Fixed Time deposit	938.806	93.881	(93.881)
Total Interest Bearing Liabilities	11,598.383	1,159.838	(1,159.838)
Net interest income increase/decrease	(513.015)	(51.301)	51.301

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 51.3 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 2019	30 June 2018
	Birr'000	Birr'000
Capital		
Share capital	1,670,608	1,325,000
Share premium	28,087	25,557
Legal reserve	350,027	224,630
General Reserve	-	18,728
Total regulatory capital	2,048,722	1,593,915
Total risk	10,814,320	9,277,780
Risk-weighted Maximum	18.94% 8%	17.18% 8%
Determination of the excess (short-fall) on capital	1,183,576	851,693



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	30 June 2019	30 June 2018
	Birr'000	Birr'000
5 Interest income		
Loans and advances to customers	991,413	786,485
NBE bills	95,420	69,446
Deposits	5,510	
Time deposit	11,647	17,371
	1,103,990	873,302
	30 June 2019	30 June 2018
	Birr'000	Birr'000
6 Interest expense		
Deposits from customers	394,691	226,707
Deposits from cooperatives and other Banks	73,180	106,261
Deposits from public agencies	834	25,033
Borrowings	-	-
	468,705	358,001
	30 June 2019	30 June 2018
	Birr'000	Birr'000
7 Fee and commission income		
Commission income Local	120,222	167,152
Commission income Foreign	144,312	79,574
Service charges Local	3,511	3,910
Service charges Foreign	258,369	117,110
Processing fees	6,819	6,155
	533,233	373,901



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	30 June 2019	30 June 2018
	Birr'000	Birr'000
8 Fee and commission expense		
Other operating expenses	3,190	-
Subscription & Publication	96	253
Telephone expenses	3,444	3,220
Fund transfer fees and expenses	8,971	3,473
	15,701	6,946
	30 June 2019	30 June 2018
	Birr'000	Birr'000
9 Net gain on foreign exchange valuation		
Gain on Foreign Exchange Valuation	204,182	59,606
Loss on Foreign Exchange Valuation	(22,475)	-
	181,707	59,606
10 Other operating income		
Rental income	64	11
Gain on disposal of properties	437	16
Penalty Charge Income	5,254	-
Dividend earned	2,992	2,381
Other income	9,314	7,147
	18,061	9,555



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	30 June 2019	30 June 2018
	Birr'000	Birr'000
11 Loan impairment charge		
Loan impairment charge	48,264	55,432
	48,264	55,432
Balance as at 30 June 2018	38,194	2,361
Day one IFRS 9 transition adjustment	(452)	3,122
Adjusted balance at 1 July 2018	37,742	5,483
Transfer to stages	2,480	1,761
Net remeasurement of loss allowance	597	(429)
New financial assets originated	40,155	2,183
Financial assets derecognized	(23,052)	(2,970)
Balance as at 30 June 2019	57,922	6,027
Loan impairment charge for the year	20,180	544

	30 June 2019	30 June 2018
	Birr'000	Birr'000
12 Impairment losses on other assets/liabilities		
Impairment losses on other assets	3,237	7,106
Impairment losses on Court Case	800	-
Impairment losses on LCS	(20)	-
Impairment losses on Gurantees	(187)	-
Impairment losses on Cash & bank Balance	38	-
Impairment losses on NBE Bill	(1)	-
	3,868	7,106

	30 June 2019	30 June 2018
	Birr'000	Birr'000
13 Personnel expenses		
Salaries and wages	195,486	154,058
Staff allowances	56,966	47,625
Pension costs – Defined contribution plan	21,605	17,524
Severance pay- Defined benefit plan	5,622	4,014
Wages for non-permanent employees.	627	361
Other staff expenses	68,665	36,320
	348,971	259,902



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	30 June 2019	30 June 2018
	Birr'000	Birr'000
14 Other operating expenses		
Accommodation	310	958
Advertisement & publicity	16,352	11,933
Amortisation Leasehold Land	506	4,124
Donations	15,557	102
Audit fees	272	175
Consultancy fee	1,660	798
Directors' related expenses	556	432
Entertainment	158	617
Event organization expense	132	58
Fuel and lubricants	2,680	1,916
Insurance	5,535	4,674
IT support	13,978	3,007
Loss on Desposal of Assets	-	122
Office supplies	13,761	12,853
Other operating expenses	6,533	855
Perdiem administration	3,230	2,884
Prepaid staff loan- write off	-	3,087
Rental expenses	87,811	72,186
Repairs and maintenance	4,464	12,509
Security, Messengers & Janitors expenses	37,230	31,495
Staff loan - Amortisation	6,949	3,425
Sundries	550	415
Transport and fuel	7,699	7,371
Utilities	1,272	734
	227,195	176,730

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:



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	30 June 2019 Birr'000	30 June 2018 Birr'000
IFRS accounting profit	683,013	418,546
<i>Add : Disallowed expenses</i>		
Entertainment	182	617
Donation	-	102
Penalty	805	27
Current service cost, past service cost and interest	4,932	3,080
Legal provision	800	-
Others	219	33
Provision for loans and advances as per IFRS	48,264	55,431
IFRS other asset impairment	5,804	-
Depreciation & amortization for IFRS accounting purpose	41,276	33,700
Sub total	102,283	92,989
<i>Less: tax exempted income</i>		
Depreciation for tax purpose	33,472	42,893
Provision for loans and advances for tax NBE 100%/80%	12,756	27,124
Other asset provision (all)	19,271	-
Interest income taxed at source-local deposit	11,647	17,371
Interest taxed at source-NBE bill	95,420	69,444
Interest Income taxed at source-foreign	5,510	-
Dividend income taxed at source	2,992	2,381
Depreciation adjustment on Disposal of assets	-	-
amortization expense, Pre establishment cost	400	400
Other asset provision	-	-
OCI tax effect	-	-
Legal provision	-	2,428
Other adjustment	-	10,958
Sub total	181,469	172,999
Taxable profit	603,827	338,537
Current tax @30%	181,148	101,561
<i>Add: 5% of interest on foreign deposit</i>	<i>276</i>	
	181,424	101,561



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	30 June 2019	30 June 2018
	Birr'000	Birr'000
Current income tax liability		
Balance at the beginning of the year	79,046	37,171
Prior year over /under paid	3,982	(694)
Income tax expense	181,424	101,561
Prior year over or under provision		
WHT notes utilized		
Payment during the year	(83,028)	(58,992)
	181,424	79,046
Deferred tax liability		
	30 June 2019	30 June 2018
	Birr'000	Birr'000
Fixed asset - carrying amount (IFRS)	261,748	217,735
Fixed assets - tax base	210,296	163,620
Fixed assets - temporary difference	51,452	54,115
deferred tax liability @30%	15,436	16,235
Severance pay - carrying amount	33,631	20,357
Severance pay - tax base	-	10,174
Severance pay temporary difference	33,631	10,183
Deferred tax asset @30%	10,089	3,055
Deferred tax liability	5,346	13,180
16 Cash and bank balances		
	30 June 2019	30 June 2018
	Birr'000	Birr'000
Cash in hand	1,488,413	1,129,083
Deposits with local banks	1,445,397	794,492
Deposits with foreign banks	329,272	995,357
Less: Bank balance impairment	(89)	
	3,262,993	2,918,932
Maturity analysis		
Current	3,262,993	2,918,932
	3,262,993	2,918,932



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17 Classification of financial assets and financial liabilities

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 July 2018.

			30 June 2018 Birr'000		1 July 2018 Birr'000
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re- measurement	New carrying amount under IFRS 9
Financial assets					
Cash and bank balances	Loans and receivables	Amortised cost	2,918,932	(89)	2,918,843
Loans and advances to customers	Loans and receivables	Amortised cost	5,898,454	38,210	5,936,664
Equity investment	Available for sale	FVOCI	37,102	2,197	39,299
Investment securities- NBE Bills			3,386,441	(131)	3,386,310
Other financial assets	Loans and receivables	Amortised cost	150,110	8,058	158,168
			12,391,039	48,245	12,439,284
Financial liabilities					
Deposits from customers	Amortised cost	Amortised cost	9,466,089		9,466,089
Deposits from other banks	Amortised cost	Amortised cost	100,000		100,000
Other financial liabilities	Amortised cost	Amortised cost	683,565	410	683,975
			10,249,654	410	10,250,064

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at 1 July 2018. The following table summarizes the impact of transition to IFRS 9 on the opening balance of retained earnings



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		30 June 2018
		Birr'000
Retained earnings		
Closing balance under IAS 39 (30 June 2018)		235,395
Recognition of adjustments under IFRS 9		45,638
Other comprehensive income		2,197
Opening balance under IFRS 9 (1 July 2018)		283,230
Cash and bank balances in the statement of cash flows are the same as on the statement of financial position as the Bank had no bank overdrafts facilities for its bank accounts at the end of each reporting year.		
		30 June 2019
		Birr'000
		30 June 2018
		Birr'000
18 Loans and advances to customers		
Agriculture	77,140	74,631
Construction and Building—includes Mining and Quarry	1,327,306	1,122,526
Consumer Loan	513,081	341,492
Domestic Trade Services —includes Transport and Com	1,848,409	1,165,014
Export and Import —includes Merchandizing	2,726,547	1,837,813
Hotel and Tourism	167,322	190,571
Manufacturing and Industry	492,970	475,054
Transport and Communication	558,712	795,605
Gross amount	7,711,487	6,002,705
- Less impairment	(114,304)	(104,250)
	7,597,183	5,898,455
Maturity analysis		
Current	1,911,694	2,630,165
Non Current	5,685,489	3,268,290
	7,597,183	5,898,455
19 Equity Investments		
		30 June 2019
		Birr'000
		30 June 2018
		Birr'000
Equity investments at fair value		
Abay Insurance S.C	14,276	13,699
Abay Industries S.C	24,569	15,000
Addis-Africa International Conv. & Exh. Center	522	734
Dessie Hidassie Building .C	100	100
Ethiswitch S.C	20,777	9,767
	60,244	39,299



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

Equity investments at cost

Abay Insurance S.C.	10,500	9,000
Abay Industries S.C.	24,569	15,000
Addis-Africa International Conv. & Exh. Center	1,000	1,000
Dessie Hidassie Building S.C.	100	100
Eth Switch S.C.	12,002	12,002
	48,171	37,102

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Summary on the Bank's Equity Investment		
Carrying Amount	48,171	37,102
Fair value valuation	60,244	39,299
Unrealized Gain/Loss due to OCI	12,073	2,197

The fair value of the unquoted equity securities carried at cost has been reliably estimated for the five equity Investments as at June 30, 2018. However, the fair value of Abay Industry S.C and Dessie Hidassie Building S.C. estimated at cost because they are not operating.

According to IFRS 9, comparatives figure for 2018 should not be restated. Therefore, the amount taken to the statement of financial position is previous year cost balance.

	30 June 2019	30 June 2018
	Birr'000	Birr'000
20 Other Financial assets		
Time deposit	101,744	259,438
National Bank of Ethiopia bills	3,386,441	2,628,138
	3,488,185	2,887,576
Less Impairment on NBE bill	(169)	
	3,488,016	2,887,576

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Receivable from money transfer agents	89,783	99,079
Staff Reciveable	1,916	896
Other receivables	105,989	47,271
Shares held for resale	100	50
	197,788	147,296
Less: impairment allowance	(5,342)	(10,163)
	192,446	137,133
Other Financial Assets	3,680,462	3,024,709



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

Maturity analysis

Current	175,071	126,356
Non Current	3,505,391	2,898,353
	3,680,462	3,024,709

21 Non-financial assets

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Prepayments	11,197	14,453
Prepaid office rent	120,848	101,443
	132,045	115,896

Inventory

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Equipments in store	1,054	472
Furniture and fittings in store	238	85
General supplies	8,433	4,554
Other stocks	2,126	1,425
Stationary	5,424	4,191
	17,274	10,727

Total Non Financial Assets

	149,319	126,623
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Maturity analysis

Current	17,274	10,727
Non Current	132,045	115,896
	149,319	126,623



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

22 Property, plant and equipment

Description	30 June 2018					30 June 2019				
	Construction in progress	Buildings	Motor Vehicles	Furniture & Fittings	Office Equipment	Computer & Accessories	Total	Total		
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000		
Cost:										
As at 1 July 2018	62,054	3,425	80,061	48,419	68,899	91,454	354,312	315,961		
Additions	1,416	-	10,328	17,496	20,790	36,672	86,702	49,080		
Disposals	-	-	-	(29)	-	-	(29)	(144)		
Reclassification	-	-	-	-	-	-	-	(10,585)		
As at 30 June 2019	63,470	3,425	90,389	65,886	89,689	128,126	440,986	354,312		
Accumulated depreciation:										
As at 1 July 2018	-	51	26,109	14,895	22,388	36,691	100,134	70,794		
Charge for the year	-	65	8,033	4,510	8,548	15,007	36,163	29,442		
Disposals	-	-	-	(17)	-	-	(17)	(102)		
Reclassification	-	-	-	-	-	-	-			
As at 30 June 2019	-	116	34,142	19,388	30,936	51,698	136,280	100,134		
Net book value:										
As at 30 June 2019	63,470	3,309	56,247	46,498	58,753	76,428	304,706	254,178		



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

23 Intangible Assets

Description	Total Birr'000	30 June 2018 Birr'000
Cost:		
As at 1 July 2018	46,615	25,427
Additions	-	21,188
Disposals	-	-
Reclassification	-	-
As at 30 June 2019	46,615	46,615
Accumulated depreciation		
As at 1 July 2018	20,989	16,728
Charge for the year	5,113	4,261
Disposals	-	-
As at 30 June 2019	26,102	20,989
Net book value:		
As at 30 June 2019	20,513	25,626

24 Right of land use

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cost		
Opening	27,773	27,509
Additions	474	264
	28,247	27,773
Accumulated amortization		
Opening	(1,316)	(880)
Charge for the year	(506)	(436)
Balance at the end of the year	26,425	26,457

The Bank secured a leasehold land in Bahir-dar ,Dessie and Addis Ababa for a period of 70 & 60 years starting from April 2015, July 2016 and June 2017 respectively.



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

25 Non current asset held for sale

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Cost		
Opening	12,977	12,977
Additions/deduction	(8,525)	
Balance at the end of the year	4,452	12,977

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

26 Deposits from customers

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Demand deposits	2,533,564	2,073,611
Savings deposits	8,126,013	6,139,606
Time deposits	938,806	1,252,872
	11,598,383	9,466,089
Maturity analysis		
Current	-	-
Non Current	11,598,383	9,466,089
	11,598,383	9,466,089

27 Deposits from other Banks

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Time deposits from domestic Banks	-	100,000
Time deposits from other Banks	-	100,000
	-	100,000
Maturity analysis		
Current	-	-
Non Current	-	100,000
	-	100,000



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

28 Financial liabilities

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Margin Held Accounts	361,178	489,665
Impairment on L/C	20	
Foreign transfers payables	152,876	79,253
Shareholders payables	993	1,600
Exchange commission payable	22,803	25,191
Refund payable	15	18
Dividend payables	24,026	19,522
Audit fee payables	272	175
Staff leave payables	22,929	16,378
Directors share of profit payable	1,080	1,016
Cash payment order payable	92,178	87,628
Customers payables	31,966	7,851
Impairment Financial Guarantee	184	
Deferred guarantee income	37,031	42,896
	747,552	771,193

29 Non-financial liabilities

Stamp duty payable	869	843
-Defined contribution liabilities	-	-
Provision for bonus	34,415	22,703
Withholding tax and valued added tax payables	724	728
Other tax payable	5,641	6,325
Sundry payables	40,861	41,117
	82,509	71,716
Total financial and non financial liabilities	830,061	842,909

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

Maturity analysis

Current	607,911.00	783,221
Non Current	222,150.00	59,688
	830,061.00	842,909

30 Severance pay

The Bank operates an unfunded severance pay plan for its managerial 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



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Defined benefits obligation	33,631	20,357
Total defined benefit obligation	33,631	20,357

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Amount recognized in the profit or loss		
Current service cost	2,695	1,646
Interest cost	2,927	1,641
Past service cost		401
Total expense recognized	5,622	3,688
Retirement benefit obligations		

Amount recognized in other comprehensive income:

The movements recognized under other comprehensive income (OCI) for the year ended 30 June 2019 are:

	30 June 2019	30 June 2018
	Birr'000	Birr'000
At the beginning of the year	7,103	-
Actuarial (Gains)/Losses on economic assumptions	3,762	5,896
Actuarial (Gains)/Losses on experience	4,670	1,207
Expense/(Income) recognized in OCI	15,535	7,103

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

	30 June 2019	30 June 2018
	Birr'000	Birr'000
At the beginning of the year	20,357	10,174
Current service cost	2,695	1,646
Interest cost	2,927	1,641
Remeasurement (gains)/ losses	8,432	7,103
Benefits paid	(780)	(608)
Past service cost	-	401
At the end of the year	33,631	20,357

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

Assumptions

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Discount Rate	11.75%	12.89%
Inflation Rate	10.00%	10.00%
Salary increase Rate	10.00%	10.00%
Net pre-retirement Rate	1.59%	2.63%



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

31 Share capital

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Authorized:		
Ordinary shares of Birr 1000 each	1,670,608	1,325,000
Issued and fully paid:		
Ordinary shares of Birr 1000 each	1,670,608	1,325,000
Share premium	28,087	25,557
	1,698,695	1,350,557

The Bank shares are owned by individuals and companies.

32 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 2019	30 June 2018
	Birr'000	Birr'000
Profit attributable to shareholders	501,589	316,985
Weighted average number of ordinary shares in issue	1,460,831	1,115,063
Basic earnings per share (Birr)	343.36	284.28

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.

33 Retained earnings

	30 June 2019	30 June 2018
	Birr'000	Birr'000
At the beginning of the year	235,395	121,274
Dividend paid	(235,395)	(141,446)
Carried forward	-	(20,172)
Profit/ (Loss) for the year	501,589	316,985
Board remuneration	(1,080)	(900)
Legal reserve	(125,397)	(79,246)
Prior period adjustment	2,454	
Other comprehensive income		18,728
At the end of the year	377,566	235,395



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
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Prior period adjustment

At the beginning of the year	
Previous years adjustment on IFRS adoption	
IFRS 9 net adjustment	
Regular Risk Reserve adjustment	
Adjusted dividend	
Dividend paid	
Net adjustment on retained earning	

30 June 2019	30 June 2018
Birr'000	Birr'000
235,395	235,395
(13,768)	-
50,849	-
(34,627)	-
237,849	-
(235,395)	(235,395)
2,454	-

34 Legal reserve

At the beginning of the year	
Transfer from profit or loss	
At the end of the year	

30 June 2019	30 June 2018
Birr'000	Birr'000
224,630	145,384
125,397	79,246
350,027	224,630

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.

35 Regulatory risk reserve

At the beginning of the year	
Retained Earning	
Regulatory risk reserve	

On loans

Loan impairment under IAS 39	
Loan impairment under IFRS 9	
NBE directive requirement	

Regulatory risk reserve

Retained Earning	
------------------	--

On Other assets

Loan impairment under IFRS 9	
NBE directive requirement	

Regulatory risk reserve

Retained Earning	
------------------	--

Regulatory risk reserve Ending balance

30 June 2019
Birr'000
(2,386.57)
40,596.88
114,304
120,195
(26,648)
26,648
5,342
34,078
20,678
3,583
34,627



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
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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 2019	30 June 2018
	Notes	Birr'000	Birr'000
36 Cash generated from operating activities			
Profit before tax		683,013	418,546
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	22	36,163	29,340
Amortization of intangible assets	23	5,113	4,261
Amortization of prepaid leasehold land	24	506	436
Gain/(Loss) on disposal of property, plant and equipment	10	437	(2)
Impairment on loans and receivables	18	4,821	62,538
Interest accrued on NBE bills	20	(17,699)	(8,965)
Employee benefit obligations	30	1,154	4,014
Amortized cost on NBE bills		-	(2)
Prior year (over)/ under provision		-	-
Changes in working capital:			
-Decrease/ (Increase) in loans and advances	18	(1,698,728)	(1,693,576)
-Decrease/ (Increase) in other assets	20	(34,572)	(34,203)
-Increase/ (Decrease) in deposits from customers	26	2,132,294	3,143,356
-Increase/ (Decrease) in deposits from other Banks	26	(100,000)	(409,624)
-Increase/ (Decrease) in other liabilities	28	12,848	349,764
		1,025,351	1,865,883

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



ABAY BANK S.C
NOTE TO THE FINANCIAL STATEMENTS
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	30 June 2019	30 June 2018
	Birr'000	Birr'000
Proceeds on disposal	448	41
Net book value of property, plant and equipment disposed	(11)	(43)
Gain/(loss) on sale of property, plant and equipment	437	-2

37 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 2019.

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Annual Salary & Benefit	7,482	5,598
	7,482	5,598

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

38 Contingent liabilities

Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2019 is Birr 4.7 million.

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 2019	30 June 2018
	Birr'000	Birr'000
Guarantees	3,915,103	3,616,249
Letters of credit	753,585	1,222,883
	4,668,688	4,839,132



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