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Abay Bank

ANNUAL REPORT

2021/22

For the year ended | June 30, 2022



ገንዘብዎን በካርድዎ ያንቀሳቅሱ!
“Hold it all, at your card”



ዓባይ - ታማኝ አገልጋይ!
Abay : The Trustworthy Bank !





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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

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



Board of Directors



Amlaku Asres (PhD)
Vice Chairperson



W/ro Ethiopia Tadesse
Board Chairperson



Ato Biyazin Enkuahone
Board Member



Ato Fantu Gola
Board Member



Ato Mekonnen Yelewemwessen
Board Member



Ato Mulat Tsega
Board Member



Ato Teshager Desalegn
Board Member



Ato Tilaye Bitew
Board Member



Ato Tadesse Assefa
Board Member

Top Management



Ato Abraham Ejigu
Chief - Corporate Banking
Officer



Ato Yehuala Gessesse
Chief Executive Officer



Ato Assefa Tefera
Chief - Retail Banking Officer



Ato Belete Kene
Chief - Corporate Services Officer



Ato Wondifraw Tadesse
Chief - Strategy and
Marketing Officer



Ato Elias Berhanu
Director - Information Technology



Ato Dawit Ayenew
Director-Internal Audit



Ato Tsega Mekonen
Director - Risk Management
and Compliance



Ato Endakmew Getnet
Director - Legal Services

Top Management



Ato Daniel Legesse
Director - Strategy and Innovation



Ato Desalegn Ayalew
Director - Finance



W/ro Tsige Ayalew
Director - International Banking



Ato Markos Demeke
Director - Branch Operation and Resource Mobilization



Ato Eyob Nigussie
Director-Procurement and Property Management



Ato Abubeker Nazir
Director - Interest Free Banking



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



Ato Abebaw Abebe
Director - Customer Relationship Management



Ato Christian Kassa
Director - Marketing and Research

Top Management



Ato Samuel Teshome
Director-Human
Capital Management



Ato Eriste W/Mariam
Director - Digital Banking



W/ro Emebet Sitotaw
Senior Advisor To The CEO



Ato Yonas Tesfaye
Manager-Dessie District



Ato Sisay Tsegaye
Manager-Bahir Dar District



Ato Simeon Abebe
Manager - North & East District



Ato Birara Semagn
Manager - Gonder District



Ato Heyeru Abdella
Manager - Dire Dawa District



Ato Tibebe Endale
Manager - South & West District



Ato Fanuel Taye
Manager - Hawassa District

Board Chairperson's Message



Dear Shareholders,

I would first of all like to pay tribute to our almighty God for keeping us together and guiding us forward to this date with immense hope and serenity. I am also pleased to present to you our Bank's annual performance report for the Fiscal Year ended June 30, 2022.

Thanks to the early vaccine development and its fairly speedy distribution and to the wide ranging economic and fiscal measures taken by countries and institutions round the globe, economic recovery was finally well on course. Nevertheless, the rise of Omicron variant mid-way into the fiscal year followed by the coming into scene of the Russia-Ukraine conflict in the second half of the fiscal year had been disruptive setbacks to the toddling recovery. Yet again, the world has to grapple with renewed challenges in dealing with sharp rising prices in food and energy markets and marked shortfalls in food and commodity supply.

Food security concerns in Africa has been brewing across wider regions of the continent with severe consequences felt in certain hard-hit countries like Somalia where dependency on food imports from the Black Sea region was too high. While the situation in Ethiopia appears somewhat different with the dependency on wheat imports markedly limited and that prospects of looming production of the grain becoming a reality, our country is still experiencing extended high inflationary conditions severely impacting households.

The onset of the fiscal year for Ethiopia, thus, couldn't still be any different not only on account of the particularly rocketing food prices but also owing to the painful repercussions coming out of the ongoing conflict in the northern region of the country.

The banking sector has seen marked expansion witnessing entry into the market of several new private commercial banks which were already under formation. The government has also shown visible moves to allow entry of foreign banks into the banking sector. The fast-increasing trend of competition in the sector was also to be amplified by non-bank entities like ethio telecom which aggressively introduced the telebirr.

The fiscal year had been a year in which close to 25% of Abay's branches were not functional for about half of the year due to the conflict in the north. Strong efforts were made afterwards to resume banking services as quickly as possible in those war affected areas by refurbishing the damages and replacing lost equipment.

Despite the grim situations experienced during the year, our Bank was able to record commendable results in several respects. In the resource mobilization front, the Bank has managed to mobilize value of deposits to the tune of Birr 8.5 billion witnessing a 35.5% annual growth. Instrumental in these results had also been the branch expansion efforts which saw 87 new outlets opened across the country, taking the total figure to 373 and growing by 30% year-on-year. The Bank has also successfully commenced constructing its monumental headquarters building in the heart of the capital. It has also been running two regional office building construction projects in addition to a 14-story new building design on course for commencement. Amidst business and investment in day-to-day operations, the Bank never fell short of compassionate hearts to live its corporate values through discharging various corporate social responsibility causes by granting donations where they are most needed.

Resilience and commitment to change remain choiceless options for us in our current as well as forthcoming efforts to transform into a much more sustainable business. With our up and running strategy formulation project, we are committed to build a business model that would navigate the Bank amid current and upcoming challenges toward desired heights.

Colleagues deserve praise for their fruitful efforts in maintaining growth and profitability. Our Bank had to sustain significant financial damage due to the loss of fixed assets and stall business in substantial areas of the country before bouncing back to functioning ways. We are always grateful for the support and cooperation we witness every year from all our stakeholders. We are so proud of our customers who keep us going and remain the real reason for our relentless improvement efforts. I would also like to underscore the praiseworthy moves of the government and the regulatory organs for their efforts in maintaining the sector safe and sound.

Thank You!

Ethiopia Tadesse
Chairperson, Board of Directors

Chief Executive Officer's Message



Dear Shareholders,

I would like to extend my cordial greetings to you all!

At the backdrop of last year's slow global economic recovery, the world continues to face headwinds of various degrees of magnitude struggling to see steady and consistent growth and recovery.

The lingering impacts of the Covid pandemic which somehow got arrested through integrated global efforts and faster vaccine distribution and supply of medical equipment, had been so repressive as it severely impacted public health, disrupted business and threatened growth. No wonder it was declared a serious health crisis across all countries of the world. The global growth projections were also markdowns, initially expected at 4.4% in 2022 (WEO) with contractions well in sight for the two largest economies of the US and China. The Russia-Ukraine conflict which broke out early in the first quarter of the year 2022 was no good news for the already wobbling economic recovery. The global impact of the war was immediately felt in sharp rising commodity as well as food prices, particularly wheat given the Black Sea's undisputed massive share in the world's produce of the grain.

Surging high flying headline inflation staying in double digits for much of the year and the undesirable socio-economic effects of the war in the north were the two most accountable phenomenon in the domestic scene which posed challenges of various nature. The government's efforts to combat the unprecedented price increases had so far been largely strategic with several valuable initiatives specially in the agricultural sector starting to return positive results.

The banking sector has continued to expand in terms of the number of participants licensed to join the sector. In addition, unfamiliar visitors such as ethio-telecom and many other fin-techs have also started to join the sector and actively engage in what had so far been sole business of banks. The competition is yet to get stiffer with expected liberalization of the sector to foreign financial services providers including banks. One of the strong moves by the government in the review period was its commitment to bring stock exchange a reality in Ethiopia by providing for the establishment of the Ethiopian Securities Exchange (ESX) following ratification of the proclamation governing the market.

In this year under review, we stayed off the mark across several planned milestones. We strived to significantly scale up business, markedly expand service outlets, and continued to invest in properties through various building construction proj-

ects. Our efforts in service outlet expansion helped us raise our branch networks to 373 by the end of the year which, in turn, helped us grow our customer base to close to 1.7 million. Both recorded a feat, respectively, of 30% and 39.2% year-on-year. The Bank's resource mobilization efforts were once again commendable exhibiting a net deposit growth of well over 35% building on last year's notable growth. We regret a good number of our branch outlets had not been operational for a sizable period of the fiscal year as a consequence of the war in the northern parts of the country. We were, however, successful in getting these branches refurbished off their sustained damages in the shortest possible time and resume business. Despite the setbacks, our financial results were not deplorable at all as our Bank managed to register a 13% year-on-year growth in profits before tax. The year's revenue generation which stood at Birr 4.4 billion had been fairly commendable, expanding at 30% year-on-year.

The Bank continued to take part in several Corporate Social Responsibility activities during the year as it spent significant amounts in donations to various recipients. Apart from the Bank's own efforts in this regard, employees have also played pivotal role in putting together a sizable amount of money in their names to be contributed to humanitarian causes for war displaced victims.

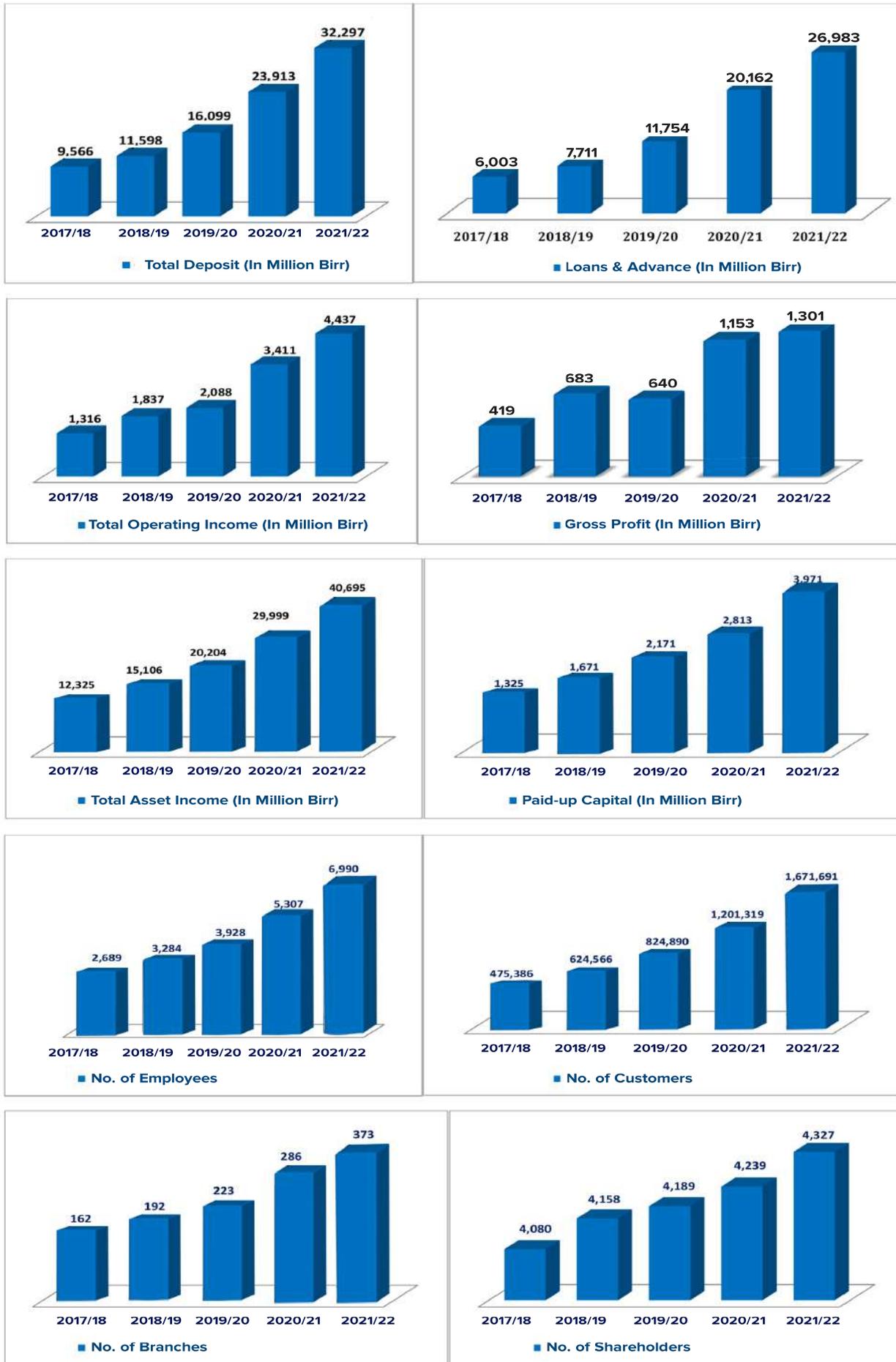
Visualizing current and forthcoming challenges in the broader landscape surrounding the sector, our primary endeavor remains to build resilience and sustainable growth in the years ahead. We are set to launch our new five-year strategic plan development project to enable us find our pathway across the competitive future. Equally important, we would keep an eye on running business and strive to deliver improved customer services across all our product ranges.

The challenges and difficulties we faced over the year could not have been overcome without the indispensable role played by all our stakeholders including the regulatory organ (NBE). We are particularly indebted to our Board of Directors whose guidance and support had been so impactful toward our efforts. We would like to say thank you to our customers to whom we would promise to yet again stay focused on duty and serve them better.

I thank you,

Yehuala Gessesse
Chief Executive Officer

Highlights of Major Achievements





Board of Director's Meeting



Top Management Members





Sharia Advisory Board



Fifth Round Foreign Currency Mobilization Campaign Prize Ceremony



Management Meeting



**Corporate Social
Responsibility Works at Mekedonia**



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Abay Bank

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**INTEREST FREE
BANKING SERVICES**



صدق SADIQ

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Businesses Financed by the Bank



PART I

THE BOARD OF DIRECTORS' REPORT



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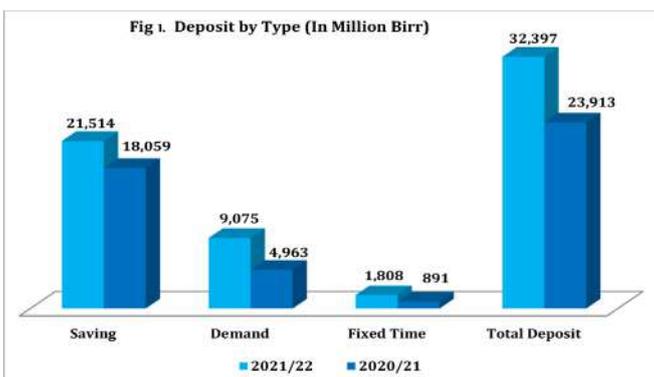
PART I: THE BOARD OF DIRECTORS REPORT

The Board of Directors of Abay Bank is pleased to present the annual report and Audited statement of financial position for the financial year ended June 30, 2022. In Part-I of the report, we present highlights of major performances, whereas Part-II covers a detailed report of the Auditors.

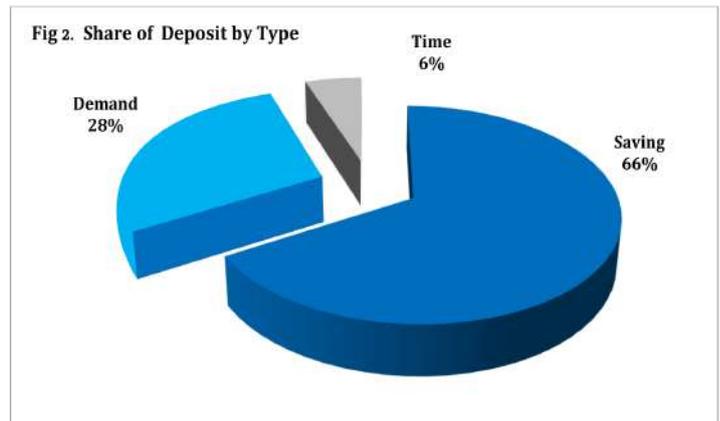
1.1. Summary of Operational Performances
1.1.1. Deposit Mobilization

As of June 30, 2022, the Bank’s total deposit stood at Birr 32.4 billion, exhibiting a growth of 35% against its preceding year’s record, out of which Birr 1.6 billion is mobilized through Abay Sadiq IFB services. During the year alone, additional deposits of Birr 8.5 billion was mobilized from both conventional and IFB sources registering respective growths of 36% and 28%. On the other hand, deposit position of savings, demand and time deposits has attained a growth rate of 19%, 83% and 103%, respectively against the position of the same period last year.

The Bank has recruited more than 470,372 new customers of conventional and IFB services in the fiscal year attaining annual growth of 39% to reach 1,671,691 customers of deposit in aggregate.



The deposit composition depicts a balanced proportion with the share of demand deposit grown to 28% whereas saving deposits constituted 66% going down by 13% from its share of the previous year. Time deposit accounted for only 6% of the total deposit position, see Fig 2.



1.1.2. Loans and Advances

The Bank’s outstanding loan advanced to customers to date amounted to Birr 27 billion of which Birr 26.3 billion was conventional while the remaining Birr 716 million was provided to the Bank’s Interest free banking customers. The feat witnesses a 34% growth put against last year’s corresponding period record.

Regarding the composition of Loans and Advances, International Trade once again takes up the largest proportion (45%) followed by Domestic Trade and Services (17%). Loans availed to Building and Construction sector accounted for 15% of the total loan balance whereas Manufacturing and Other sectors shared 8% each. Transport and Communication claimed the rest 7% share, see Fig 3 below.

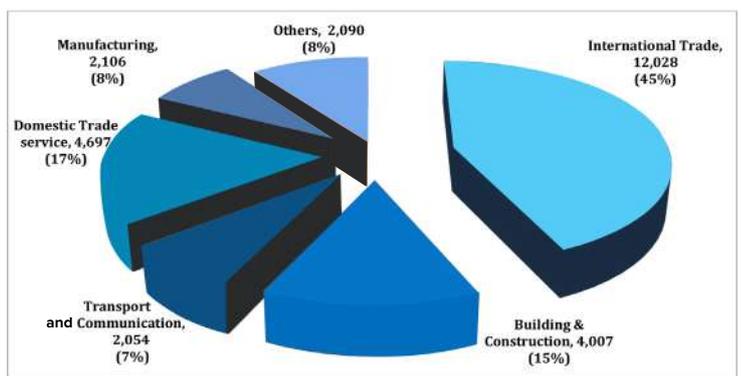


Fig 3: Loans and Advances by Sectors (In millions)

Note: Others include Consumer Loans, Hotel & Tourism, and Agriculture.

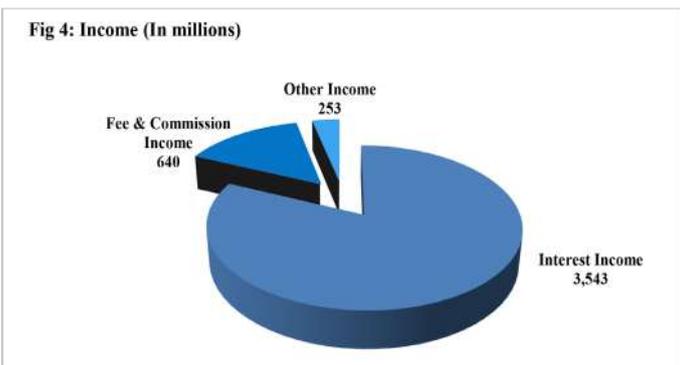
1.1.3. International Banking Operations

Due to the growing challenges in foreign currency earnings, i.e., the lack of Western based correspondent banking relations coupled with the global economic slowdown aggravated by the spread of COVID-19 and the ongoing conflict in the country, the Bank’s foreign currency mobilization slipped by only 18% from the preceding year. Despite the drop in foreign currency generation, the proportion of foreign currency mobilized from the Export sector took the lion’s share slicing up 74%, followed by SWIFT transfer (18%) and Others (8%).

1.2. Financial Performances

1.2.1. Revenue

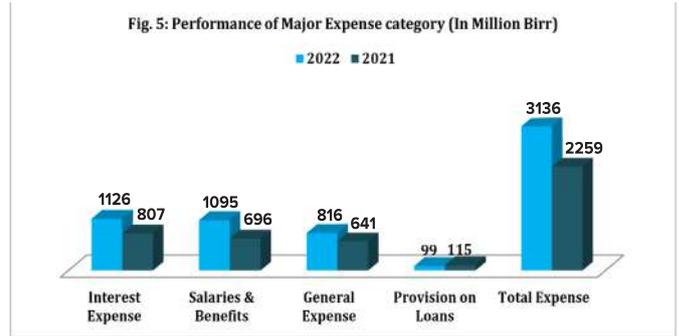
Registering growth of 30% from the previous year, the Bank generated a total income of Birr 4.4 billion 80% of which is claimed by interest income. On the other hand, 14% and 6%, respectively, of the total income were raised from Commissions and Service fees and Other income sources, see Fig 4 below.



1.2.2. Expense

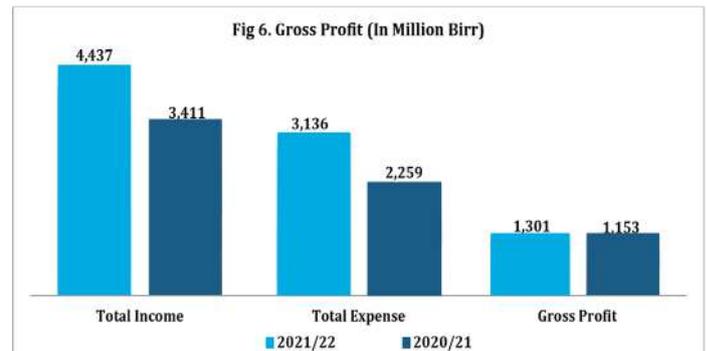
The total expense of the Bank during the financial year under review reached Birr 3.1 billion, growing by 39% compared to last year’s corresponding record. The two expense categories of Salary and benefits and, Interest expenses grew by 57% and 40%, respectively, from the previous year corresponding spending while General expenses rose by 27% year-on-year.

The share of Interest expense accounted for 36% as the expenditure on Salary and Benefits which shared an equivalent 35% proportion. On the other hand, the expense proportion for General expenses and Provisions on loans and Other expenses took up 26% and 3%, respectively, see Fig 5 below.



1.2.3. Gross Profit

The Bank has continued to exhibit significant growth in all aspects of key performance metrics. The profitability measure has exhibited a year-on-year growth of 13%, registering a gross profit of Birr 1.3 billion for the just ended fiscal year, June 30, 2022, see Fig 6 below.



1.2.4. Total Asset

The total asset of the Bank reached Birr 40.7 billion as at the year just ended exceeding the balance as of last year’s corresponding record by Birr 10.8 billion, registering a growth of 36%. The growth in loans and advances had been instrumental to the spelled growth in the Bank’s total asset.

1.2.5. Capital

As of June 30, 2022, the Bank’s total equity reached Birr 5.9 billion exceeding last year’s same period balance by 39%. Paid-up capital of the Bank has reached Birr 3.97 billion recording a 41% growth from its previous year record thanks to the injection of Birr 1.16 billion additional capital by the Bank’s shareholders.

1.3. Non-Financial and Administrative Issues

1.3.1. Branch Expansion

During the financial year under review, Abay Bank expanded its branch network in different parts of the country. Accordingly, the Bank opened eighty-seven additional branches out of which six of them were opened to serve primarily the Bank’s Abay-Saadiq customers. The remaining 81 new branches serve conventional as well as IFB customers using IFB serving windows. Consequently, the total number of branches reached 373, out of which 12 are fully dedicated to Interest Free Banking services, at the close of the financial year attaining a 30% growth against last year’s corresponding record.



1.3.2. Human Capital

In recognition of its sheer importance towards the attainment of the strategic aspirations of our Bank, our Bank continued to cultivate a pool of highly motivated, capable, and engaged employees through effective provision of needful support to the rapidly growing operational activities. During the fiscal year under evaluation, continued focus was placed on recruiting the most talented and experienced professionals. Accordingly, Abay has created employment opportunity to 1,683 new employees during the year and the total headcount reached 6,990 of which, 3,608 are perma-

nent while 3,382 are outsourced employees. Developing the competence and capability of our employees is one of our strategic focuses, and subsequently we continued to considerably invest on our human capital. Accordingly, 4,203 staff received training in a range of technical and developmental areas.

1.3.3. Digital Banking Technology

Abay Bank has been undertaking various changes and improvements in its IT systems and infrastructures. In this regard, it has invested towards systems optimization and enhancements, IT security and systems availability as well as resilience.

The Bank has also embarked upon widely expanding digital channels with a view to increasing service offerings to customers as well as strengthening the Bank’s digitalization efforts. In this regard, the deployment of digital channels has been extensively pursued including the installation of 76 additional ATMs at various branches and marketable locations. As a result the number of functional ATM aggregated to 161. When it comes to online banking services, an ongoing enhancement work in the Internet banking and mobile financial services systems have been accomplished. Following the enhancement works, a new set of robust and more secure mobile banking and Internet banking platforms are implemented so as to newly roll out faster, more reliable and secure online banking products to retail and corporate customers.

Furthermore, during the year under review, the number of customers using these digital outlets has also grown markedly. Exceeding records of the previous year significantly, the number of new subscribers for the year grew by more than 345, 000 and 157,000, respectively, of Card and Mobile Banking platforms. Consequently, the total number of Mobile and Card Banking subscribers has reached 648,290 and 430,705 in that order. At the same time, the number of Internet Banking users expanded by 109% year-on-year to reach 10,760 as the subsequent activation rates of these services also intensified.

1.3.4. Corporate Social Responsibility

Upholding one of its core values, the Bank commits adequate attention and resources in support of initiatives which are geared towards bringing an all-out impacts on the wellbeing of our society. As a result, during the period under review, significant amount of outlay was committed to support several community undertakings.



1.4. Going Forward

Executing its strategic plan, Abay Bank has adequately focused on pursuing business growth and operational excellence as key strategic pathways. Thus, it will continue to invest more time and energy to strengthen the sustainable growth of resource mobilization and optimal allocation of the resources in the remaining period of the strategic plan. To leverage this effort, the Bank shall also work on enhancement of various digital banking technology platforms and IT infrastructure developments in the course of ensuring operational efficiency and digital capability.

1.3.5 Risk Management and Compliance

Abay Bank considers risk management as one of its strategic objectives. During the 2021/22 fiscal year, risk management took center stage of the operation through identifying potential risk areas, properly measuring the likelihood and potential impacts, putting best-fit alternatives in place and continuously monitoring materialized and potential risks. In this regard, our Bank is tirelessly working on internalizing risk management practices across the organization through enhancing its risk management process into the mainstream of the Bank’s culture. This has been done using continuous awareness creation trainings, exercising risk register schemes across all units and functions and against leading risk indicators as well as by conducting periodic risk assessment reports on credit, financing, liquidity, market and operations.

In harmonizing the Bank’s digitization efforts with its branch expansion endeavors, the Bank shall pursue an optimal service distribution model that deploys the latter mindful of and hand in hand with enhancing the highly-sought digital presence in view of both efficiency as well as effectiveness and thereby enabling customers receive seamless experience across service points. To improve the mindful quality of digital channels, the Bank is set to undertake projects so as to upgrade the current payment switch application by a state-of-the-art system. In addition, the Bank shall further expand the Abay Sadiq services through the introduction of a variety of IFB products and service offerings as well as opening up full-fledged IFB branches to draw a good number of potential customers to the service.

With a much more resilience to the current and upcoming business landscape, the Bank is committed to undertake a comprehensive change initiative by embarking on developing a new strategic plan to emulate the ever-growing competition in the industry.

1.3.6 Construction Projects

Over the last few years, Abay has been working on acquisition of land, undertaking preconstruction works and launching construction activities. Construction activities of the Bank in the capital Addis, Dessie and Bahir Dar have been started and they are well on progress. The Bank will continue to invest more on the on-going construction projects of the Headquarters and other buildings to advance the construction further as per the project schedule.



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Abay Bank

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TIBEB EDUCATION SAVING ACCOUNT



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**ABAY BANK HEADQUARTER BUILDING PROJECT
ADDIS ABABA**





**ABAY BANK BUILDING PROJECT
BAHIR DAR**



**ABAY BANK BUILDING PROJECT
DESSIE**

**ዓባይ - ታማኝ አገልጋይ!
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PART II

AUDITORS' REPORT



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ABAY BANK SHARE COMPANY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022
DIRECTORS AND STATUTORY INFORMATION

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

Executive management

Yehuala Gessese	Chief Executive Officer	August 17,2015
Abraham Ejigu	Chief Corporate Banking Officer	May 27,2015
Belete Kene	Chief Corporate Services Officer	November 13,2020
Belete Dagneu	Chief Retail Banking Officer	October 12,2015
Wondifraw Tadesse	Chief - Strategy & Marketing Officer	December 15,2020
Elias Birhanu	Director - Information Technology	September 03,2018
Daniel Legesse	Director - Strategy & Innovation	December 05,2011
Dawit Ayenew	Director - Internal Audit	November 13,2020
Endakmew Getnet	Director - Legal Services	November 11,2015
Tsega Mekonen	Director - Risk Management & Compliance	December 01,2011

Independent auditor

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

Chartered Certified Accountants (UK)

Authorised Auditors (ETH)

Addis Ababa

Ethiopia

Principal bankers

Aktif Yatirim Bankasi A.S.
Bank of Africa
Bank of Beirut,Cyprus
Bank of Beirut, Great Britain
Bank of Beirut, Lebanon
Bank of Beirut, Uk Frankfurt
CAC International Bank Djibouti
East Africa Bank,Djibouti
EBISA Ecobank , Paris
EBISA Ecobank , Kenya
Exim Bank Djibouti S.A.
KCB - Kenya Commercial Bank
ODDO BHF Aktiengesellschaft
Equity Bank Kenya Ltd
Africa Export Import Bank (AFRI
EXIM)
NCBA Bank Kenya Plc
First Rand Bank Limited
Commercial Bank of Dubai



**ABAY BANK SHARE COMPANY
FOR THE YEAR ENDED 30 JUNE 2022
REPORT OF DIRECTORS**

The directors submit their report together with the financial statements for the year ended 30 June 2022, 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 2022 has been transferred to retained earnings. The summarised results are presented below.

	30 June 2022	30 June 2021
	Birr’000	Birr’000
Total operating income	3,188,497	2,455,350
Profit / (loss) before tax	1,300,913	1,152,876
Tax (charge) / credit	(367,648)	(305,743)
Profit / (loss) for the year	933,265	847,133
Other comprehensive income / (loss) net of taxes	111,601	22,029
Total comprehensive income/ (loss) for the year	1,044,866	869,162
Earnings per share (Birr 1000)	295.08	333.59

Directors

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



**ABAY BANK SHARE COMPANY
FOR THE YEAR ENDED 30 JUNE 2022
STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The 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 2021 (proclamation No 1243/2021) 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 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 2021 (proclamation No 1243/2021) 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 Directors 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.”

The Directors have made an assessment of the bank’s ability to continue as a going concern and nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for atleast the next twelve months from the date of this statement.

Signed on behalf of the Directors by:

Ethiopia Tadesse
Chairperson, Board of Directors



Yehuala Gessesse
Chief Executive Officer






Tafesse, Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants (UK) and Authorised Auditors (Ethiopia)
Member Firm of HLB International
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK



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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 29-59, which comprise the statement of financial position as at 30 June 2022, 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 2022, 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.

Also as indicated on **Note 38** of financial statements, the performance and advance payment guarantee issued to construction Companies casts uncertainty and the bank should adopt strict follow up and action to this matter



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.

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 in accordance with the Commercial Code of Ethiopia of 2021 (Proclamation No1243/2021), recommend approval of the financial statements.

Tafesse, Shisema & Ayalew

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

Addis Ababa
22 September 2022



**ABAY BANK SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2022**

	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
Interest income	5	3,543,341	2,462,334
Interest expense	6	(1,126,413)	(807,406)
Net interest income		2,416,928	1,654,928
Fee and commission income	7	640,140	658,734
Fee and commission expense	8	(17,650)	(13,689)
Net Fee and commission income		622,490	645,045
Net gain on foreign exchange valuation	9	112,972	124,076
Other operating income	10	36,107	34,626
Total operating income		3,188,497	2,458,675
Loan impairment charge	11	(92,175)	(105,561)
Other Assets Impairment Charge	12	(6,978)	(8,717)
Net operating income		3,089,344	2,344,397
Personnel expenses	13	(1,094,626)	(695,407)
Depreciation & Amortization of PPE & Intangible assets	23-24	(87,281)	(64,538)
Depreciation expense on right of use asset	21	(133,241)	(141,603)
Interest Expense on lease liability	22	(23,281)	(9,189)
Other operating expenses	14	(450,002)	(280,784)
Profit before tax		1,300,913	1,152,876
Income tax expense	15	(367,648)	(305,743)
Profit After Tax		933,265	847,133
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified into profit or loss:			
Re-measurement gain/(loss) on defined benefits obligations	30	(4,085)	(9,972)
Financial assets at FVOCI (equity investments)	18	116,911	32,001
Deferred tax (liability)/asset on re-measurement gain or loss	15	(1,226)	-
		111,601	22,029
Total comprehensive income for the period		1,044,866	869,162
Earnings per share (Birr 1,000)	32	295.08	333.59

The notes on pages 33 to 59 are an integral part of these financial statements.



**ABAY BANK SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022**

	<u>Notes</u>	<u>30 June 2022</u> <u>Birr'000</u>	<u>30 June 2021</u> <u>Birr'000</u>
ASSETS			
Cash and bank balance	16	7,920,786	4,801,551
Loans and advances to customers	17	26,594,569	19,866,632
Equity investments at fair value -OCI	18	298,728	176,817
Other financial assets	19	3,182,409	3,750,548
Other non Financial assets	20	941,906	55,759
Right of use assets	21	639,439	416,155
Property, plant and equipment	23	575,235	551,423
Intangible Assets-Software	24	27,032	36,535
Construction in progress	25	501,634	329,413
Non current asset held for sale	26	13,758	13,758
TOTAL ASSETS		40,695,496	29,998,591
LIABILITIES			
Deposits from customers	27	32,397,350	23,905,824
Current income tax liability	15	367,648	305,743
Other Financial liabilities	28	1,571,928	1,315,862
Lease Liabilities	22	391,992	138,860
Non financial liabilities	29	44,154	36,714
Defined benefits obligation	30	65,219	48,195
Net deferred tax liabilities	15	610	19,452
TOTAL LIABILITIES		34,838,901	25,770,650
EQUITY			
Share Capital	31	3,971,031	2,812,741
Share Premium	31	35,208	28,365
Retained Earnings	33	658,748	600,916
OCI-Definded Employee Benefit	30	(25,560)	(21,475)
OCI-Equity Investment	18	171,751	54,840
Legal Reserve	34	920,434	687,116
Regulatory Risk Reserve	35	124,983	65,439
TOTAL EQUITY AND LIABILITIES		40,695,496	29,998,591

The notes on pages 33 to 59 are an integral part of these financial statements.

The financial statements on page 29- 59 were approved and authorized for issue by the board of directors on September 22 2022 were signed on its behalf by:

Ethiopia Tadesse 
Chairperson of Board of Directors

Yehuala Gessesse 
Chief Executive



ABAY BANK SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

	Share Capital		Share Premium	Retained Earnings	OCI-			OCI-		TOTAL
	Birr'000	Birr'000			Defined Employee	Legal Reserve	Regulatory Risk Reserve	Equity Investment	Birr'000	
As at 1 July 2020	2,170,608	28,290	313,106	11,503	475,329	90,262	22,839	3,111,937		
Issues of ordinary shares	642,133	75	-	-	-	-	-	642,208		
Profit for the year	-	-	847,133	-	-	-	-	847,133		
Dividend paid	-	-	(313,106)	-	-	-	-	(313,106)		
Board remunerations	-	-	(1,350)	(9,972)	-	-	-	(1,350)		
Re-measurement on defined benefit plan	-	-	-	-	-	(9,972)	9,162	(9,972)		
OCI-Equity Investment	-	-	-	-	-	-	-	-		
Regulatory Risk Reserve	-	-	(25,904)	-	-	(24,823)	-	(50,727)		
Transfer to legal reserve	-	-	(211,787)	-	211,787	-	-	-		
Prior period adjustment(IFRS)	-	-	(7,176)	(167)	-	-	-	(7,343)		
As at 30 June 2021	2,812,741	28,365	600,915	1,364	687,116	65,439	32,001	4,227,941		
As at 1 July 2021	2,812,741	28,365	600,916	1,364	687,116	65,439	32,001	4,227,941		
Issues of ordinary shares	1,158,290	6,843	-	-	-	-	-	1,165,133		
Profit for the year	-	-	933,265	-	-	-	-	933,265		
Dividend paid	-	-	(548,685)	-	-	-	-	(548,685)		
Board remunerations fee	-	-	(1,350)	-	-	-	-	(1,350)		
Re-measurement on defined benefit plan	-	-	-	(4,085)	-	-	-	(4,085)		
OCI-Equity Investment	-	-	-	-	-	-	116,911	116,911		
Regulatory Risk Reserve	-	-	(59,545)	-	-	59,545	-	-		
Deferred tax liabilities	-	-	18,843	-	-	-	-	18,843		
Transfer to legal reserve	-	-	(233,318)	-	233,318	-	-	-		
Prior period adjustment	-	-	(51,378)	(22,839)	-	-	22,839	(51,378)		
As at 30 June 2022	3,971,031	35,208	658,748	(25,560)	920,434	124,983	171,751	5,856,595		

The notes on pages 33 to 59 are an integral part of these financial statements.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

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 Ababa, Ethiopia**

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

2 Summary of significant accounting policies

The accounting policies applied in the preparation of these financial statements are set out below.

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 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).

2.3 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.

2.4 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.

2.5 Recognition of income and expenses

2.5.1 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.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

2.5.2 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.

2.5.3 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.

2.5.4 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.

2.5.5 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.

2.6 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.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

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.

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.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

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.

2.7 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.

2.8 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.

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:

<u>Asset class</u>	<u>Estimated useful life in Years</u>
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.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

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.

2.9 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.

2.10 Non-current assets held for sale

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

2.11 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.

2.12 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.

2.13 Right of use assets

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



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

2.14 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;
- 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.

b) Defined benefit plan

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

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

2.15 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.

2.16 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.

2.17 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.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

2.18 Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of 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 an 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 includes 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 many 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. A change in any of the assumptions will alter the carrying amount of pension obligations.

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 a 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 that 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.



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

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.

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.



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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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:

Loans and advances to customers

				30 June 2022	30 June 2021
				Birr'000	Birr'000
	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1	25,065,178	-	-	25,065,178	18,929,360
Stage 2	-	1,160,662	-	1,160,662	831,726
Stage 3	-	-	756,672	756,672	401,314
Total gross exposure	25,065,178	1,160,662	756,672	26,982,512	20,162,400
Loss allowance	(209,924)	(11,609)	(166,411)	(387,944)	(295,769)
Net carrying amount	24,855,254	1,149,053	590,261	26,594,569	19,866,631

				30 June 2022	30 June 2021
				Birr'000	Birr'000
	Stage 1	Stage 2	Stage 3	Total	Total
Stage 1	2,999,225	-	-	2,999,225	2,696,041
Stage 2	-	8,291	-	8,291	16,291
Stage 3	-	-	-	-	-
Total gross exposure	2,999,225	8,291	-	3,007,516	2,712,332
Loss allowance	(25,499)	(52)	-	(25,550)	(20,959)
Net carrying amount	2,973,726	8,239	-	2,981,965	2,691,373

The off balance sheet items include Loan commitments of Revolving credit facilities and Overdraft facilities (Unutilized Amounts) and Financial Guarantee.

4.2.3 Credit concentrations by sector

The Bank monitors credit risk by sectorial distribution against its own risk concentration limit. An analysis of concentrations of credit risk at 30 June 2022 is give below.

Sectors	30 June 2022	30 June 2021
	Birr'000	Birr'000
Agriculture	255,064	124,166
Construction and Building	4,007,260	3,274,453
Consumer Loan	1,284,817	1,004,282
Domestic Trade Services	4,696,828	4,052,193
Export and Import	12,028,032	8,555,173
Hotel and Tourism	550,020	436,466
Manufacturing and Industry	2,106,260	1,588,643
Transport and Communication	2,054,232	1,127,024
Total gross exposure	26,982,512	20,162,400
- Less impairment	(387,944)	(295,769)
Net	26,594,569	19,866,631



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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:

Collateral Concentration by sector

Sector	Building	Machinery	Truck	Others	30 June 2022	30 June 2021
					Birr'000	Birr'000
					Total	Total
					Collaterals	Collaterals
Agriculture	281,613	-	87,311	77,163	446,088	202,228
Construction and Building	5,846,737	497,512	2,097,698	1,168,123	9,610,071	8,750,799
Consumer Loan	1,956,561	-	250,773	28,369	2,235,703	1,394,983
Domestic Trade Services	10,432,547	1,500	914,707	427,550	11,776,305	11,168,288
Export and Import	10,702,015	25,000	1,361,610	1,746,601	13,835,225	12,504,323
Hotel and Tourism	1,457,633	-	7,988	37,954	1,503,575	1,392,146
Manufacturing and Industry	3,149,428	328,031	345,398	362,752	4,185,609	2,954,859
Transport and Communication	1,010,706	6,400	3,570,006	39,240	4,626,351	3,148,316
Total	34,837,240	858,444	8,635,491	3,887,752	48,218,927	41,515,942
Less: Impairment					(387,944)	(295,769)
Net					47,830,983	41,220,174

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

Loans and advances to customers

	Stage 1	Stage 2	Stage 3	30 June 2022	30 June 2021
				Birr'000	Birr'000
				Total	Total
Balance at 1 July, 2021	189,377	9,271	97,120	295,769	140,313
Transfer to 12 months ECL	3,564	(777)	(2,787)	-	-
Transfer to Lifetime ECL not credit impaired	(5,804)	5,922	(118)	-	-
Transfer to Lifetime ECL credit impaired	(1,730)	(961)	2,691	-	-
Net remeasurement of Loss allowance	(4,051)	(449)	90,662	86,162	55,117
Net financial assets originated or purchased	154,547	5,364	807	160,717	171,674
Financial assets derecognised	(125,979)	(6,760)	(21,965)	(154,704)	(71,336)
Balance at 30 June 2022	209,924	11,609	166,411	387,944	295,769

Loan commitments, financial guarantee contracts and letter of credit

Off balance sheet exposures in total **3,007,516** **2,712,331**

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.



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

Ratio of net liquid assets to deposits

	30 June 2022	30 June 2021
At Close of the year	23.8%	20.1%
Average for the year	21.7%	23.4%
Maximum for the year	24.3%	29.4%
Minimum for the year	19.0%	19.5%

The table below summarizes the Bank's liquidity risk as at 30 June 2022, categorized into relevant maturity groupings based on contractual maturity date.

	Below 1 year	1-3 years	Over 3 years	Non Maturing	30 June 2022	30 June 2021
					Birr'000	Birr'000
30 June 2022	Birr'000	Birr'000	Birr'000	Birr'000	TOTAL	TOTAL
Financial Assets						
Cash and bank balances	7,920,786	-	-	-	7,920,786	4,801,551
Loans & advances to customer:	5,249,371	10,979,427	10,365,771	-	26,594,569	19,866,631
Equity investments	-	-	-	298,728	298,728	176,817
Other financial Assets	2,912,535	69,074	200,800	-	3,182,409	3,750,548
Total Financial Assets (a)	16,082,692	11,048,501	10,566,571	298,728	37,996,492	28,580,971
Financial Liabilities						
Deposits from customers	7,569,980	6,206,840	18,620,530	-	32,397,350	23,913,447
Deposits from other banks	-	-	-	-	-	-
Other financial liabilities	1,571,928	-	-	-	1,571,928	1,142,140
Total financial liabilities (b)	9,141,908	6,206,840	18,620,530	-	33,969,278	25,055,587
NET Mismatch (a - b)	6,940,784	4,841,661	(8,053,959)	298,728	4,027,214	3,525,384
Cumulative Mismatch	6,940,784	11,782,445	3,728,486	4,027,214	8,054,428	7,050,768

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

Staff Loans measured at fair valuation

	30 June 2022	30 June 2021
Stages	Birr'000	Birr'000
	Total	Total
Stage 1	397,369	196,758
Stage 2	8,372	5,709
Stage 3	11,130	2,829
Grand Total	416,871	205,296

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.



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Interest rate risk

Interest Bearing assets

Loans and Advance to Customers at amortized cost

Fixed Time deposit

Total Interest Bearing assets

Interest Bearing liabilities

Deposits from customers

Fixed Time deposit

Total Interest Bearing Liabilities

Net interest income increase/decrease

30 June 2022

Birr'000

Carrying Amount	10% Increase	10% Decrease
26,982,512	2,698,251	(2,698,251)
101,718	10,172	(10,172)
27,084,230	2,708,423	(2,708,423)
30,589,406	3,058,941	(3,058,941)
1,807,944	180,794	(180,794)
32,397,350	3,239,735	(3,239,735)
(5,313,120)	(531,312)	531,312

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 531.3 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.

Capital adequacy ratio

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

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

Capital

Share capital

Share premium

Legal reserve

Total regulatory capital

Total risk weighted assets

Risk-weighted Capital Adequacy Ratio (CAR)

Minimum required capital

Determination of the excess (short-fall) on capital

30 June 2022

Birr'000

30 June 2021

Birr'000

3,971,031	2,812,741
35,208	28,365
920,434	687,116
4,926,673	3,528,222
36,629,539	28,180,688
13.45%	12.52%
8%	8%
1,996,310	1,273,767

5 Interest income

Loans and advances to customers

Treasury Bills

NBE bills

Government Bonds

Deposits

Time deposits

30 June 2022

Birr'000

30 June 2021

Birr'000

3,361,327	2,262,264
123,911	21,710
29,748	102,816
2,307	-
-	1,098
26,048	74,446
3,543,341	2,462,334



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	30 June 2022	30 June 2021
	Birr'000	Birr'000
6 Interest expense		
Deposits from customers	1,090,025	778,008
Deposits from cooperatives and other Banks	35,212	26,726
Deposits from public agencies	1,176	2,672
	1,126,413	807,406
7 Fee and commission income		
Commission income Local	210,707	186,555
Commission income Foreign	135,078	165,004
Service charges Local	12,626	5,936
Service charges Foreign	270,860	285,250
Processing fees	10,869	15,989
	640,140	658,734
8 Fee and commission expense		
Legal Fees	40	15
Municipality Fees	1,834	1,829
Membership fee	268	602
License Fees	372	258
Correspondent Charges	2,347	2,374
Motor Vehicles Inspection & Circulation Fees	778	873
Bank Charges & Commissions	4,605	3,588
Ethswitch Remote-on us expense	5,936	2,922
Swift charge	1,469	1,224
Agent commission expense	-	4
	17,650	13,689
9 Net gain on foreign exchange valuation		
Gain on Foreign Exchange Valuation	216,946	255,760
Loss on Foreign Exchange Valuation	(103,974)	(131,684)
	112,972	124,076



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10 Other operating income

Rental income
Gain on disposal of properties
Penalty Charge Income
Dividend earned
Other income

30 June 2022	30 June 2021
Birr'000	Birr'000
562	1,210
1,618	356
226	517
7,445	2,680
26,256	29,863
36,107	34,626

11 Loan impairment charge

Loan impairment charge

30 June 2022	30 June 2021
Birr'000	Birr'000
92,175	105,561
92,175	105,561

12 Impairment losses on other assets/liabilities

Impairment losses on other assets
Impairment losses on Court Case
Impairment losses on Treasury Bill
Impairment losses on Cash & bank Balance

30 June 2022	30 June 2021
Birr'000	Birr'000
6,841	2,743
-	5,949
(11)	(5)
148	30
6,978	8,717

13 Personnel expenses

Staff Salaries
Staff allowances
Pension costs – Defined Employee Benefit
Defined Employee Benefit
Other staff expenses

30 June 2022	30 June 2021
Birr'000	Birr'000
582,460	397,795
229,626	110,665
64,235	43,866
15,747	9,241
202,558	133,840
1,094,626	695,407



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14 Other operating expenses

Advertisement & publicity
Amortization Leasehold Land
Donations
Audit fees
Consultancy fee
Directors' related expenses
Entertainment
Event organization expense
Fuel and lubricants
Insurance
IT support
Loss on Disposal of Assets
Office supplies
Other Operating expenses
Perdiem administration
Repairs and maintenance
Security, Messengers & Janitors expenses
General assembly
Meeting accommodation
Fund transfer fees and expenses
Staff loan - Amortization
Sundries
Telephone expenses
Provision Expense on LCS
Provision Expense on Financial Guarantee
Sponsorship expense
Transport and fuel
Utilities
Wages for non-permanent employees.

	30 June 2022	30 June 2021
	Birr'000	Birr'000
20,108	22,682	
2,687	200	
10,110	28,500	
423	323	
2,416	2,337	
1,130	1,080	
274	254	
539	135	
8,045	4,284	
11,933	8,859	
65,675	48,575	
590	40	
53,173	30,499	
75,558	940	
7,006	3,881	
10,641	6,190	
119,787	77,242	
660	243	
2,193	717	
5,953	4,778	
12,068	14,869	
2,427	2,830	
19,187	11,419	
(27)	15	
10	157	
2,330	-	
9,557	5,874	
3,552	2,783	
1,997	1,078	
450,002	280,784	



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15 Company income and deferred tax liability

Reconciliation of effective tax to statutory tax

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
IFRS accounting profit	1,300,913	1,152,875
<i>Add : Disallowed expenses</i>		
Entertainment	274	254
Penalty	1,499	40
Award/Gifts	235	212
Sport Expense	480	52
Current service cost, past service cost and interest	15,747	7,626
Impairment on other assets	136	197
Legal Provision	-	5,949
IFRS depreciation and Amortization expense	87,281	64,538
Provision for Loans and Advances as per IFRS	92,175	105,561
Interest expense on Lease liability	23,281	9,189
Depreciation Expense - ROUA	18,283	5,132
Depreciation Expense - ROUA_leasehold land	3,111	-
Prepaid staff expense	12,068	14,869
Additional interest income recognized on employee benefit	58,670	-
Accrued-Leave expenses	43,589	11,414
Loss on Disposal of Asset (As per IFRS)	590	26
Provision expense of LCs & Guarantee	16	-
Other receivable provision expense	6,842	2,743
Sub total	364,279	227,802
<i>Less: tax exempted income and allowed</i>		
Depreciation for Tax purpose	106,930	71,133
80% of NBE provision on loans	127,675	78,025
80% of Other receivable asset provision	11,209	10,046
Interest income taxed at source- local deposit	26,048	74,446
Interest income taxed at source- NBE bill	29,748	102,816
Interest income taxed at source- Treasury Bill	123,911	21,710
Interest income taxed at source- Foreign	-	810
Interest income taxed at source- Government Bond	2,307	-
Dividend income taxed at source	7,445	2,680
Gain on Disposal of property, plant and equipments (As per IFRS)	1,618	-
Definded employee benefit paid as per tax base	2,808	-
Sub total	439,698	361,667
Taxable profit	1,225,494	1,019,009
Current tax @30%	367,648	305,703
Add: 5% of interest on foreign deposit	-	41
Withholding tax receivable	-	-
Income tax expense recognized in profit or loss	367,648	305,743



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Current income tax liability

Balance at the beginning of the year
Prior year over /under paid
Income tax expense
Payment during the year

30 June 2022	30 June 2021
Birr'000	Birr'000
305,743	139,090
52,230	-
367,648	305,743
(357,973)	(139,090)
367,648	305,743

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

Deferred income tax assets/(liabilities):

Property, plant and equipment
Post employment benefit obligation
Total deferred tax assets/(liabilities)

1 July , 2021	Credit/ (charge) to		30 June 2022
	P/L	OCI	
Birr'000	Birr'000	Birr'000	Birr'000
33,911	(13,735)	-	20,176
(14,458)	(3,882)	(1,226)	(19,565)
19,452	(17,617)	(1,226)	610

16 Cash and bank balance

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

30 June 2022	30 June 2021
Birr'000	Birr'000
1,988,265	1,819,184
4,880,508	1,859,527
2	2
1,052,308	1,122,987
(297)	(149)
7,920,786	4,801,551

Maturity analysis

Current
Non Current

7,920,786	4,801,551
7,920,786	4,801,551

17 Loans and advances to customers

Agriculture
Construction and Building
Consumer Loan
Domestic Trade Services
Export and Import
Hotel and Tourism
Manufacturing and Industry
Transport and Communication
Total gross exposure
- Less impairment

30 June 2022	30 June 2021
Birr'000	Birr'000
255,064	124,166
4,007,260	3,274,453
1,284,817	1,004,282
4,696,828	4,052,193
12,028,032	8,555,173
550,020	436,466
2,106,260	1,588,643
2,054,232	1,127,024
26,982,512	20,162,400
(387,944)	(295,769)
26,594,569	19,866,632

Maturity analysis

Current
Non Current

9,932,070	13,529,739
16,662,499	6,336,892
26,594,569	19,866,632



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18 Equity Investments

	FV as at '30 June 2020	Investment during the year	FV - OCI	FV as at '30 June 2021
	Birr'000	Birr'000	Birr'000	Birr'000
Equity investments				
Abay Insurance S.C	20,027	-	1,274	21,301
Abay Industries S.C	42,069	7,931	-	50,000
Addis-Africa Int. Conv. & Exh. Center	604	-	9	613
Dessie Hidassie Building .C	100	-	-	100
Ethiswitch S.C	30,210	28,875	30,718	89,803
ACSI Bank S.C	-	15,000	-	15,000
	93,010	51,806	32,001	176,817
	FV as at '30 June 2021	Investment during the year	FV as at '30 June 2022	FV as at '30 June 2022
	Birr'000	Birr'000	Birr'000	Birr'000
At the beginning of the year	21,301	5,000	4,981	31,282
OCI Current year addition	50,000	-	26,553	76,553
Balance as end of the year	613	-	330	943
Dessie Hidassie Building .C	100	-	-	100
Ethiswitch S.C	89,803	-	81,947	171,750
ACSI Bank S.C	15,000	-	3,101	18,101
	176,817	5,000	116,911	298,728

OCI Equity Investment

At beginning of the year	54,840	22,839
OCI-equity investment for the period	116,911	32,001
At the end of the year	171,751	54,840

The fair value of equity investments are estimated by independent consultant, price waterhouse Coopers (PWC). Pwc used fair value of comparative companies and adjusted for specific factors as a basis for fair valuation. It applied level II inputs in determining fair value of bank's equity investments.

19 Other Financial assets

a) Investment Securities

	30 June 2022	30 June 2021
	Birr'000	Birr'000
Time deposit	101,718	708,159
Treasury bill	2,177,107	-
Government Bond	203,394	5,287
National Bank of Ethiopia bill	-	2,711,426
	2,482,219	3,424,872
Less Impairment on NBE and Treasury Bills	(124)	(136)
	2,482,095	3,424,736

b) Other receivables

Receivable from money transfer agents	119,790	86,149
Staff receivable	1,605	2,366
Other receivables	584,846	237,033
Less: impairment allowance	(5,927)	264
	700,314	325,812

Total Other Financial Assets

Maturity analysis

Current	2,273,096	601,049
Non Current	909,313	3,149,499
	3,182,409	3,750,548



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20 Other Non-financial assets

Prepayments	
Inventory in stock	
Prepaid employee benefits	
Other receivable	
Total other Non Financial Assets	

30 June 2022	30 June 2021
Birr'000	Birr'000
205,067	29,546
300,047	26,213
436,181	-
611	-
941,906	55,759

21 Right of Use Asset

The statement of financial position shows separate line item for the right of use asset which comprises the following; Weighted Average Cost of Capital of the bank was used to discount lease liability. The rate applied for this computation was 6%.

Right-of-use assets balance – As at July 1, 2021	
Add: ROUA addition	
Add: Lease liability addition	
Add(Less): Depreciation expense on right of use asset	
Total	

30 June 2022	30 June 2021
Birr'000	Birr'000
416,155	303,048
248,942	70,323
107,583	47,916
(133,241)	(5,132)
639,439	416,155

Office Rent	
Land	
Total Right of use asset	

30 June 2022	30 June 2021
Birr'000	Birr'000
510,284	380,080
129,155	36,075
639,439	416,155

22 Lease liabilities

The statement of financial position shows separate line item for the lease liability which comprises the following; Weighted Average Cost of Capital of the bank was used to discount lease liability. The rate applied for this computation was 6%.

Lease liabilities balance – As at July 1, 2021	
Add: Lease liability addition of the year	
Add: Current year interest expense on lease liability	
Total	

30 June 2022	30 June 2021
Birr'000	Birr'000
138,860	81,755
229,852	47,916
23,281	9,189
391,992	138,860



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23 Property, plant and equipment

Description	Buildings	Motor Vehicles	Furniture & Fittings	Office Equipment	Computer & Accessories	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Cost:						
As at 1 July 2021	91,175	176,320	108,094	135,441	261,713	772,743
Additions	-	13,347	41,004	18,405	31,975	104,731
Disposals	-	(968)	(295)	(4,703)	(1,101)	(7,067)
Reclassification	-	-	-	-	-	-
Prior Year Adjustment	-	549	(492)	(1,033)	(2,004)	(2,980)
	91,175	189,248	148,310	148,110	290,584	867,427
Accumulated depreciation:						
As at 1 July 2021	319	50,981	29,755	51,555	88,709	221,320
Charge for the year	1,732	17,044	10,202	15,266	33,532	77,776
Disposals	-	(833)	(199)	(4,087)	(934)	(6,053)
Prior Year Adjustment	-	(51)	(348)	(101)	(351)	(852)
	2,052	67,141	39,411	62,633	120,955	292,192
Net book value:						
30 June 2021	90,856	125,339	78,339	83,886	173,004	551,423
30 June 2022	89,123	122,106	108,899	85,477	169,629	575,235

24 Intangible Assets

Description	30 June 2022 Birr'000	30 June 2021 Birr'000
Cost:		
As at 1 July 2021	78,833	47,074
Additions	-	23,564
Prior Period Adjustment	-	-
Reclassification	-	8,195
30 June 2022	78,833	78,833
Accumulated amortization		
As at 1 July 2021	42,298	31,012
Charge for the year	9,504	6,787
Disposals	-	-
Prior Period Adjustment	(1)	4,499
30 June 2022	51,801	42,298
Net book value:		
30 June 2021	36,535	16,062
30 June 2022	27,032	36,535



**ABAY BANK SHARE COMPANY
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	30 June 2022 Birr'000	30 June 2021 Birr'000
25 Construction in progress		
As at 1 July 2021	329,413	65,085
Additions for the year	172,221	264,328
	501,634	329,413
26 Non current asset held for sale		
Cost		
Opening	13,758	15,683
Additions/deduction	-	(1,925)
Balance at the end of the year	13,758	13,758
The Bank's policy is to pursue realization of the collateral in a timely manner.		
27 Deposits from customers		
	30 June 2022 Birr'000	30 June 2021 Birr'000
Demand deposits	9,075,677	4,968,980
Savings deposits	21,513,729	18,045,538
Fixed Time deposit	1,807,944	891,306
	32,397,350	23,905,824
Maturity analysis		
Current	32,397,350	23,905,824
Non Current	-	-
	32,397,350	23,905,824
28 Other Financial liabilities		
	30 June 2022 Birr'000	30 June 2021 Birr'000
Audit fee payables	423	323
Borrowing from DBE	180,411	65,659
Borrowing from NBE	-	17,555
Cash payment order payable	174,894	148,074
Customers payables	265,721	59,377
Provision for bonus	51,693	65,563
Deferred guarantee income	1,795	11,064
Directors share of profit payable	1,350	1,350
Dividend payables	35,163	30,002
Exchange commission payable	14,666	35,777
Foreign transfers payables	67,766	118,585
Impairment Financial Guarantee	310	300
Impairment on L/C	22	49
Long Outstanding payables	43,200	30,478
Margin Held Accounts	400,028	627,457
Refund payable	96	116
Shareholders payables	804	838
Staff leave payables	86,854	43,265
Cash indemnity allowance	14,194	7,622
Sundry payables	232,538	52,408
	1,571,928	1,315,862



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29 Non-financial liabilities	30 June 2022 Birr'000	30 June 2021 Birr'000
Stamp duty payable	475	2,205
Tax payables	22,861	17,214
Pension payable	10,320	4,603
Provisions	-	6,989
Other payables	10,498	5,702
	44,154	36,714
Total other financial and non financial liabilities	1,616,082	1,352,576

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

Maturity analysis	30 June 2022 Birr'000	30 June 2021 Birr'000
Current	1,571,928	1,315,862
Non Current	44,154	36,714
	1,616,082	1,352,576

30 Defined Employee Benefit Obligation

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

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
Defined benefits obligation	65,219	48,195
Total defined employee benefit obligation	65,219	48,195

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

Amount recognized in the profit or loss	30 June 2022 Birr'000	30 June 2021 Birr'000
Current service cost	7,448	4,024
Interest cost	8,299	5,069
Past service cost	-	-
Total expense recognized	15,747	9,093



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Amount recognized in other comprehensive income:

The movements recognized under other comprehensive income (OCI) for the year ended 30 June 2022 are

	30 June 2022 Birr'000	30 June 2021 Birr'000
At beginning of the year	(21,475.00)	(11,503)
Actuarial (Gains)/Losses on economic assumptions	4,739	1,626
Actuarial (Gains)/Losses on experience	(8,824)	(11,598)
Prior period adjustment	-	-
Expense/(Income) recognized in OCI	(25,560)	(21,475)

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
At the beginning of the year	48,195	30,597
Current service cost	7,448	4,024
Interest cost	8,299	5,069
Measurement (gains)/losses	4,085	9,972
Benefits paid	(2,808)	(1,730)
Past service cost	-	-
Prior Period Adjustment	-	263
At the end of the year	65,219	48,195

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

Assumptions

	30 June 2022 Birr'000	30 June 2021 Birr'000
Discount Rate	24.3%	15.3%
Inflation Rate	17.3%	10.0%
Salary increase Rate	17.3%	10.0%
Net pre-retirement Rate	6.0%	4.8%

31 Share capital

Authorized:

Ordinary shares of Birr 1000 each

Issued and fully paid:

Ordinary shares of Birr 1000 each

Share premium

	30 June 2022 Birr'000	30 June 2021 Birr'000
Authorized	5,000,000	5,000,000
Issued and fully paid	3,971,031	2,812,741
Share premium	35,208	28,365
	4,006,239	2,841,106

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 tax by the weighted average number of ordinary shares in issue during the year.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Profit after tax	933,265	847,133
Weighted average number of ordinary shares in issue	3,163	2,539
Basic earnings per share (Birr)	295.08	333.59



**ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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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 2022 Birr'000	30 June 2021 Birr'000
At the beginning of the year	600,916	313,106
Dividend paid	(548,685)	(313,106)
Carried forward		
Profit/ (Loss) for the year	933,265	847,133
Board remuneration fee	(1,350)	(1,350)
Legal reserve	(233,318)	(211,787)
Regulatory risk reserve	(59,545)	(16,193)
Deferred tax liabilities	18,843	(9,711)
Prior period adjustment	(51,378)	(7,176)
At the end of the year	658,748	600,916
34 Legal reserve	30 June 2022 Birr'000	30 June 2021 Birr'000
At the beginning of the year	687,116	475,329
Legal reserve transferred during the period	233,318	211,787
At the end of the year	920,434	687,116

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	30 June 2022 Birr'000	30 June 2021 Birr'000
On loans		
Loan impairment under IFRS 9	(387,944)	(295,769)
NBE directive requirement	455,363	287,738
	67,419	(8,030)
On Other assets		
Other Assets impairment under IFRS 9	(5,927)	(9,551)
NBE directive requirement	13,096	58,796
	7,169	49,246
Suspended interest		
Suspended interest Computed as per NBE directive requirement	50,395	24,223
	50,395	24,223
Regulatory risk reserve Ending balance	124,983	65,439



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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. Moreover, according to NBE directives interest income on impaired loans are not distributable to shareholders of the bank. The amount net-off tax is transferred to regulatory risk.

36 Cash generated from operating activities	Notes	30 June 2022 Birr'000	30 June 2021 Birr'000
Profit before tax		1,300,913	1,152,875
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	23	77,776	57,750
Amortization of intangible assets	24	9,504	6,787
Gain/(Loss) on disposal of property, plant and equipment	36	(1,027)	40
Impairment on loans and advances	11	92,175	105,561
Impairment on on other receivable, NBE bill and Treasury E	19 a & 19 b	6,180	(7,101)
Employee benefit obligations	30	(4,085)	(9,972)
Proceed from sale of non current asset held for sale	26	-	1,925
Changes in working capital:			
-Decrease/ (Increase) in loans and advances	17	(6,820,112)	(8,408,655)
-Decrease/ (Increase) in other financial asset	19 b	(380,693)	5,365
-Decrease/ (Increase) in Other Non Financial assets	20	(886,147)	(18,328)
-Decrease/ (Increase) in Right of use assets	21	(223,284)	(123,237)
-Increase/ (Decrease) in deposits from customers	27	8,491,526	7,806,908
-Increase/ (Decrease) in Other Financial liabilities	28	256,066	688,052
-Increase/ (Decrease) in Lease Liabilities	22	253,132	57,105
-Increase/ (Decrease) in Defined benefits obligation	30	17,024	17,598
-Increase/ (Decrease) in Non financial liabilities	29	7,440	(90,171)
		2,196,388	1,242,503

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

	30 June 2022 Birr'000	30 June 2021 Birr'000
Cost of Property, plant and equipments sold	7,067	164
Accumulated depreciation of property, plant and equipment sold	(6,053)	(105)
Gain/(loss) on sale of property, plant and equipment	1,027	(40)
Proceed of property, plant and equipment sold	2,042	20



**ABAY BANK SHARE COMPANY
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37 Related party transactions

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

a) Transactions with related parties

	Nature of Relationship	30 June 2022 Birr'000	30 June 2021 Birr'000
Loans to related parties	Board of Directors	380,616	7,041
	Executive Management	135,090	19,156
		515,706	26,197

b) Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management is shown.

There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2022.

	30 June 2022 Birr'000	30 June 2021 Birr'000
Annual Salary and other shorter benefit	14,912	8,306
Directors share on annual profit	1,350	1,350
Directors annual sitting allowance	1,080	1,080
	17,342	10,736

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

38 Contingent liabilities

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 2022 Birr'000	30 June 2021 Birr'000
Guarantees issued and outstanding	697,159	707,567
Letters of credit net-off margin held	447,375	978,008
	1,144,534	1,685,574

39 Commitments

The bank has commitments, not provided for in these financial statements being unutilized facilities as follows:

	30 June 2022 Birr'000	30 June 2021 Birr'000
Unutilized revolving facilities	1,019,404	586,892
Unutilized overdraft facilities	1,214,057	760,684
	2,233,461	1,347,576

40 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the bank as at 30 June 2022 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.



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TIRIT SAVING ACCOUNT



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