

ABAY BANK SHARE COMPANY (S.C.)

FINANCIAL STATEMENTS AND AUDIT REPORT 30 JUNE 2024

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Tafesse, Shisema and Ayalew
Certified Audit Partnership
Chartered Certified Accountant (UK)
Authorized Auditors (Ethiopia)
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ABAY BANK SHARE COMPANY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Directors and Statutory Information

Directors	Title	Appointment date
Dr. Amlaku Asres	Chair person	December 26, 2019
Ato Tadesse Assefa	Vice Chair person	March 19, 2020
Ato Jembere Workineh	Member	April 24, 2024
Ato Demes Teshager	Member	April 4, 2023
W/ro Marta Ayenew	Member	April 4, 2023
Ato Mulat Tsega	Member	January 04, 2016
Ato Nebiyu Siyum	Member	April 4, 2023
Ato Tibebe Alula	Member	April 4, 2023
Ato Wubie Atnafu	Member	April 4, 2023

Executive management

Ato Yehuala Gessese	Chief Executive Officer	August 17, 2015
Ato Abrham Ejigu	Chief Credit Officer	May 27, 2015
Ato Belete Kene	Chief Human Capital Officer	November 13, 2020
Ato Assefa Tefera	Chief Retail Banking Officer	January 04, 2023
Ato Wondifraw Tadesse	Chief Strategy Officer	December 15, 2020
Ato Elias Birhanu	Chief Information Officer	August 25, 2023
Ato Dawit Ayenew	Chief Internal Audit	November 13, 2020
Ato Tsega Mekonen	Chief Risk & Compliance Officer	December 01, 2011
Ato Desalegn Ayalew	Chief Corporate Services Officer	August 25, 2023
W/ro Tsige Ayalew	Chief International Banking Officer	August 25, 2023
Ato Daniel Legesse	Director - Strategy & Innovation	December 05, 2011
Ato Endakmew Getnet	Director - Legal Services	November 11, 2015

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



ABAY BANK SHARE COMPANY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Report of Directors

The directors submit their report together with the financial statements for the year ended 30 June 2024, 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 2024 has been transferred to retained earnings. The summarised results are presented below.

	30 June 2024	30 June 2023
	Birr'000	Birr'000
Total operating income	6,127,934	5,378,215
Profit / (loss) before tax	1,945,310	2,124,416
Tax (charge) / credit	(443,250)	(572,945)
Profit / (loss) for the year	1,502,060	1,551,471
Other comprehensive income / (loss) net of taxes	37,404	62,551
Total comprehensive income/ (loss) for the year	1,539,464	1,614,022
Earnings per share (Birr 1,000)	280.62	360.03

Directors

The directors who served during the year and up to the date of this report are set out on page 2.



ABAY BANK SHARE COMPANY
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2024

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 at least the next twelve months from the date of this statement.

Signed on behalf of the Directors by:

Dr Amlaku Asres

Chairperson of Board of Directors

Yehuala Gessesse

Chief Executive Officer



**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 10-66, which comprise the statement of financial position as at 30 June 2024, 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 2024, 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 18 and 21** 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.

IFRS 13 requires entities to measure fair value using observable inputs whenever possible, and unobservable inputs only when observable inputs are not available. In the case of the Bank's investment in other entities, the Bank has determined that there are no observable inputs available to measure fair value. Therefore, the Bank has used a valuation model that incorporates unobservable inputs, such as the discount rate and future cash flows.

The use of unobservable inputs in the valuation model poses a risk of material misstatement, as the Bank's judgment in determining these inputs could be biased or inaccurate. We have identified this as a key audit matter because of the following factors:

- The Bank's investment in other entities is significant, is material to the financial statements.
- The valuation of the investment is complex and requires the use of a number of unobservable inputs.



To address this key audit matter, we have performed the following audit procedures:

- We assessed the Bank's valuation methodology and evaluated the reasonableness of the key assumptions used in the valuation model.
- We compared the Bank's valuation results to those of independent market participants.

Based on our audit procedures, we believe that the Bank's valuation of its investment in other entities is reasonable and in accordance with IFRS 13. However, we recommend that the Bank consider the following actions to mitigate the risk of material misstatement in the future:

- Consider using a valuation methodology that incorporates more observable inputs.
- Regularly monitor the performance of the investment and update the valuation model as needed.

Also as indicated on **Note 39** 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 No-1243/2021), recommend approval of the financial statements. In addition, we have no objection on the amount of dividend proposed by the directors and hence in accordance with article 349 (3) of the commercial code of Ethiopia of 2021 recommended approval of the proposed dividend distribution.

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

Addis Ababa
08 October 2024



ABAY BANK SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2024

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
Interest income	6	6,667,727	5,547,522
Interest expense	7	(2,093,522)	(1,569,189)
Net interest income		4,574,205	3,978,333
Fee and commission income	8	1,248,051	1,241,979
Fee and commission expense	9	(30,254)	(54,407)
Net Fee and commission income		1,217,797	1,187,572
Net gain on foreign exchange valuation	10	192,454	154,927
Other operating income	11	143,478	57,383
		335,932	212,310
Total operating income		6,127,934	5,378,215
Loan impairment charge	12	21,337	(207,867)
Other Assets Impairment Charge	13	(107,704)	(11,444)
Net operating income		6,041,567	5,158,904
Personnel expenses	14	(2,510,939)	(1,966,996)
Depreciation & Amortization of PPE & Intangible assets	24-25	(177,800)	(121,535)
Depreciation expense on right of use asset	22	(228,585)	(180,979)
Interest Expense on lease liability	23	(15,525)	(10,241)
Other operating expenses	15	(1,163,408)	(754,737)
Profit before tax		1,945,310	2,124,416
Income tax expense	16 (c)	(443,250)	(572,945)
Profit After Tax		1,502,060	1,551,471
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified into profit or loss:			
Re-measurement gain/(loss) on defined benefits obligations	31	(34,388)	(36,051)
Financial assets at FVOCI (equity investments)	19	87,822	199,016
Deferred tax (liability) on re-measurement gain or loss:	16 (d)		
- Defined benefit obligations		10,316	10,816
- FVOCI (equity investments)		(26,347)	(111,230)
		37,404	62,551
Total comprehensive income for the period		1,539,464	1,614,022
Earnings per share (Birr 1,000)			
Basic EPS	33	280.62	360.03
Diluted EPS	33	280.62	360.03

The notes on pages 10 to 66 are an integral part of these financial statements



ABAY BANK SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2024

	<u>Notes</u>	<u>30 June 2024</u> <u>Birr'000</u>	<u>30 June 2023</u> <u>Birr'000</u>
ASSETS			
Cash and bank balance	17	11,694,162	8,247,918
Loans and advances to customers	18	41,109,103	36,474,351
Equity investments at fair value -OCI	19	640,520	505,679
Other financial assets	20	6,819,698	5,667,735
Other non Financial assets	21	1,394,684	705,778
Right of use assets	22	1,180,648	927,495
Property, plant and equipment	24	1,613,467	1,141,539
Intangible Assets-Software	25	29,772	19,582
Construction in progress	26	1,928,111	1,359,726
Non current asset held for sale	27	7,351	7,351
Total assets		66,417,516	55,057,154
LIABILITIES			
Deposits from customers	28	52,626,060	41,769,515
Current income tax liability	16 (b)	481,704	572,836
Other Financial liabilities	29	3,029,661	4,364,775
Lease Liabilities	23	615,713	507,520
Non financial liabilities	30	56,016	53,257
Defined benefits obligation	31	192,048	119,001
Net deferred tax asset/(liabilities)	16 (d)	87,945	110,380
Total liabilities		57,089,147	47,497,285
EQUITY			
Share Capital	32	6,015,344	4,733,303
Share Premium	32	39,108	35,388
Retained Earnings	34	1,052,342	1,030,944
OCI-Defined Employee Benefit	31	(74,868)	(50,796)
OCI-Equity Investment	19	321,013	259,537
Legal Reserve	35	1,674,200	1,308,302
Regulatory Risk Reserve	36	301,230	243,190
		9,328,369	7,559,869
Total equity and liabilities		66,417,516	55,057,154

The notes on pages 10 to 66 are an integral part of these financial statements.

The financial statements on page 10 - 66 were approved and authorized for issue by the board of directors on October 08, 2024 were signed on its behalf by:

Dr Amlaku Asres _____

Chairperson of Board of Directors

Yehuala Gessesse _____

Chief Executive Officer



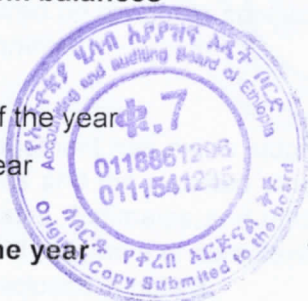
ABAY BANK SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2024

Notes	Share Capital	Share Premium	Retained Earnings	OCI-Defined Employee Benefit	Legal Reserve	Regulatory Risk Reserve	OCI-Equity Investment	TOTAL
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
As at 1 July 2022								
	3,971,031	35,208	658,748	(25,560)	920,434	124,983	171,752	5,856,595
Issues of ordinary shares	762,272	180	-	-	-	-	-	762,452
Profit for the year	-	-	1,551,471	-	-	-	-	1,551,471
Dividend paid	-	-	(658,748)	-	-	-	-	(658,748)
Board remunerations fee	-	-	(1,350)	-	-	-	-	(1,350)
Re-measurement on defined benefit plan net of tax	-	-	-	(25,235)	-	-	-	(25,235)
OCI-Equity Investment	-	-	-	-	-	-	87,786	87,786
Regulatory Risk Reserve	-	-	(118,207)	-	-	118,207	-	-
Deferred tax liabilities	-	-	1,459	-	-	-	-	1,459
Transfer to legal reserve	-	-	(387,868)	-	387,868	-	-	-
Prior period adjustment	-	-	(14,561)	-	-	-	-	(14,561)
As at 30 June 2023	4,733,303	35,388	1,030,944	(50,795)	1,308,302	243,190	259,537	7,559,869
As at 1 July 2023								
	4,733,303	35,388	1,030,944	(50,795)	1,308,302	243,190	259,537	7,559,869
Issues of ordinary shares	1,282,041	3,720	-	-	-	-	-	1,285,761
Profit for the year	-	-	1,502,060	-	-	-	-	1,502,060
Dividend paid	-	-	(1,041,760)	-	-	-	-	(1,041,760)
Re-measurement on defined benefit plan net of tax	-	-	-	(24,072)	-	-	-	(24,072)
OCI-Equity Investment net of tax	-	-	(58,040)	-	-	58,040	61,475	61,475
Regulatory Risk Reserve	-	-	(365,898)	-	365,898	-	-	-
Transfer to legal reserve	-	-	(14,964)	-	-	-	-	-
Prior period adjustment	-	-	-	-	-	-	-	-
As at 30 June 2024	6,015,344	39,108	1,052,342	(74,868)	1,674,200	301,229	321,013	9,328,369

The notes on pages 10 to 66 are an integral part of these financial statements.

ABAY BANK SHARE COMPANY
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2024

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash flows from operating activities			
Cash generated from operations	37	5,476,698	4,102,236
Income tax paid	16 (b)	(572,836)	(367,648)
Prior period adjustment	16 (b)	-	(3,745)
Net cash (outflow)/inflow from operating activities		4,903,862	3,730,844
Cash flows from investing activities			
Proceed of investment securities	20(a)	(532,856)	(2,063,927)
Purchase of equity investment	19	(47,019)	(7,934)
Purchase of construction in progress	26	(568,385)	(858,095)
Purchase of intangible assets	25	(17,953)	-
Purchase of property, plant and equipment	24	(651,569)	(681,873)
Proceed from sale of property, plant and equipments	37	23,495	476
Net cash (outflow)/inflow from investing activities		(1,794,286)	(3,611,353)
Cash flows from financing activities			
Payment of principal portion of lease liabilities	23	92,668	105,287
Dividend paid	34	(1,041,760)	(658,748)
Proceeds from issue of shares	32	1,285,761	762,452
Board remuneration fee	34	-	(1,350)
Net cash (outflow)/inflow from financing activities		336,668	207,641
Net increase/(decrease) in Cash and bank balances		3,446,244	327,132
Cash and bank balance at the beginning of the year	17	8,247,918	7,920,786
Net cash increase/(decrease) during the year		3,446,244	327,132
Cash and bank balances at the end of the year	17	11,694,162	8,247,918



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

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.

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

i) Statement of compliance

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.

ii) Basis of measurement

The financial statement have been prepared on the historical cost basis except:

- Financial asset at FVTOCI are measured at fair value
- Prepaid staff benefits are measured at fair value and
- The liability for defined benefit obligation is measured at present value using discount method

iii) 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).

iv) 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.

v) Use of estimates and judgements

In preparing the financial statements management has made judgments, estimates and assumptions that affect the application of the bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2 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.



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

3 Recognition of income and expenses

2.3.1 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.

2.3.2 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.

3.3 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.

2.3.4 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.

3.5 Income tax

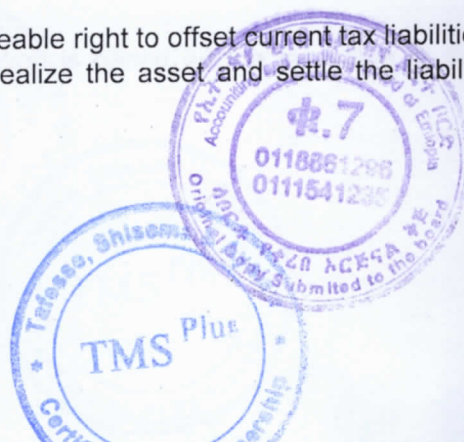
i) Current income tax

Current income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income. Current income 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.

ii) Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rate that has been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

2.4 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. The acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added or deducted from the fair value of the financial assets or financial liabilities respectively.

ii) Classification and subsequent measurement

a) Financial assets

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

The Bank shall measure a financial asset at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

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

Business model assessment

The Bank shall make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Bank's management;

The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

b) Financial liabilities

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

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

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



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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 shall measure loss allowances at an amount equal to lifetime ECL, except for the following, which are

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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.

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



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v) Measurement of ECL

The bank measures ECL on collective basis for portfolio of loans that share similar economic risk characteristics.

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. ECL for exposure in stage 2 and stage 3 are calculated by multiplying lifetime PD by LGD and by 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.

ECL is a probability-weighted estimate of credit losses. It shall be measured as follows:

- for financial assets that are not credit-impaired at the reporting date (stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- for financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
- for undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- for financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

v) Restructured financial assets

Where the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the Bank shall assess whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.



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vi) Credit-impaired financial assets

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

A financial asset shall be considered 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a 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 other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

Loss allowances for ECL shall be presented in the statement of financial position as follows:

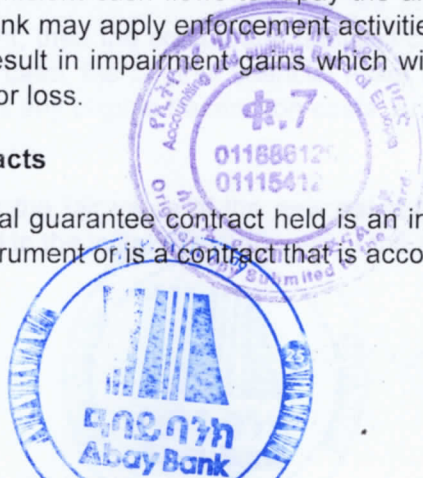
- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- for debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognized in the fair value reserve.

viii) Write off

Loans and debt securities are written off when the bank has no reasonable expectations of recovering the financial asset (either partially or in full). This is the case when the bank determines that the borrower doesn't have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The bank may apply enforcement activities to financial assets written off. Recoveries resulting from previously written off will result in impairment gains which will be presented in net impairment loss on financial assets in the statement of profit or loss.

ix) Non-integral financial guarantee contracts

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



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

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

x) Derecognition of financial assets and financial liabilities

a) Financial assets

The Bank shall derecognize a financial asset when:

- The contractual right to the cash flows from the financial asset expires
- It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI shall not be recognized in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank shall be recognized as a separate asset or liability.

b) Financial liabilities

Financial liabilities are derecognized when contractual obligations are discharged or cancelled, or expire.

xi) Modifications of financial assets and financial liabilities

a) Financial assets

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognized and a new financial asset shall be recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs shall be included in the initial measurement of the asset; and



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- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it shall first consider whether a portion of the asset should be written off before the modification takes place.

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

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

b) Financial liabilities

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

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

xii) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS standards or for gain and losses arising from a group of similar transactions such as in the bank's trading activities.



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iii) Designation at fair value through profit or loss

a) Financial assets

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

b) Financial liabilities

The Bank shall designate certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise

2.5 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 carried at amortized cost in the statement of financial position.

For the purposes of the cash flow statement, cash and bank balances include cash and restricted balances with National Bank of Ethiopia.

2.6 Property, plant and Equipment

a) Recognition and measurement

The Bank classifies property, plant, and equipment (PPE) as held for use in accordance with IAS 16 unless the asset is classified as investment property under IAS 40 or held for sale or discontinued operations.

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.

A small portion of the Bank's PPE(Quara Building located in Gonder Town) is rented out on a short-term basis and is not central to the Bank core operations. This rented portion remains classified as PPE.

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.



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c) Depreciation

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

Asset class	Estimated useful life (In years)	Residual value (In %)
Buildings	50	5
Motor vehicles	10	5
Furniture and fittings	10 - 20	1
Office equipment	5 - 10	1
Computer and accessories	7	1

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

d) De-recognition

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

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

7 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.



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2.8 Non-current assets held for sale

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

2.9 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.

2.10 Other Non-financial assets

Other non financial 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.

a) Prepayment

Prepayments are payments made in advance for services to be enjoyed in the future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortized over the period in which the services is to be enjoyed.

b) Other receivables

Other receivables are recognized upon the occurrence of event or transaction as they arise and settled when the payment is received. The Bank's other receivables are consists of E-top up, advance payments and other receivables.

11 Right of use asset and lease liability

The bank assesses whether a contract is, or contains a lease, at the inception of the contract. In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once the management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of the asset only exists when the Bank has the right to substantially obtain all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

Lease payments included in the measurement of lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;



ABAY BANK SHARE COMPANY
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- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset of the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received

A lease liability and corresponding right-of-use asset are recognized at the lease commencement date, for all lease agreements for which the Bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the Bank recognizes the lease payments as a depreciation expense in separate line of items in profit or loss statement (note 21) on straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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. Right of use assets are recognized at the commencement of the lease contract and is measured at cost less accumulated depreciation and accumulated impairment. Rights of use assets are depreciated over the useful life of the lease term on a straight line basis. Right of use assets are derecognized at the expiration of a lease contract.

The depreciation starts at the commencement date of a lease and the depreciation method and useful life of right of use asset described as follows;

Item	Depreciation method	Useful life
Buildings	Straight line	Lease period
Land	Straight line	50

The useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use-asset with a cost is significant in relation to the total cost of the asset is depreciated separately.

2.12 Prepaid employee benefit

The bank provides loans to its employee at below market rate of interest. Under IFRS such loans are recognized at their fair value on the inception date. The fair value of employee loans below market rate are determined as the present value of future cash flow receipts (installment payments) using the prevailing market rate of interest as a discounting factor. The market rate is determined by reference to what the staff members would have been charged to access a similar loan facility from other banks. The market rate is determined by the Ethiopian Bankers Association. The difference between the fair value and the contractual value of employee loans are recognized as prepaid employee benefit and amortized throughout the life the loan. Accordingly for the year 2023/24, interest rate of 12.73% was used for staff loans.



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13 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.

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;

b) Defined benefit plan

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

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

14 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.

15 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.

2.16 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.



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2.17 Dividends

Dividends are recognized as a liability in the period in which they are declared, that is when the shareholders of the bank approve dividend distribution to the bank's shareholders.

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 the shares is classified as share premium.

Significant accounting estimates and judgments

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

When measuring ECL the bank uses reasonable and supportable forward looking information which is based on assumptions for the future movement of different economic drivers and how this drivers will affect each other. The key inputs in measuring Expected Credit Loss (ECL) are Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). See note 2.5 (iv). All these are estimates and judgments which are highly subjective.

3.2 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Bank's financial instruments are carried at fair value. The fair value of quoted financial instruments in active markets are based on current prices with no subjective judgements.

There are no financial instruments currently measured at fair value except equity investment and prepaid employee benefit. If the market for a financial instrument does not exist, a degree of judgment is required to establish fair values judgment include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3.3 Defined benefit plans

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



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3.4 Property, plant and equipment

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

3.5 Taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

New Standards, Amendments and interpretations issued during the year

a. New Standards, amendments, interpretations issued, effective and adopted during the year

<u>New Standards or Amendments</u>	<u>Date</u>	
	<u>Effective</u>	<u>Publication</u>
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	1-Jan-24	May-23
Amendments to IAS 1 - Non-current liabilities with covenants	1-Jan-24	Nov-22
Amendment to IFRS 16 – Leases on sale and leaseback	1-Jan-24	Sep-22
IFRS S2 Amendments to Climate-related Disclosures	1-Jan-24	Jun-23
IFRS 17, 'Insurance contracts'	1-Jan-23	May-17

b. New standards, amendments and interpretations issued but not effected

<u>New Standards or Amendments</u>	<u>Date</u>	
	<u>Effective</u>	<u>Publication</u>
IFRS 18, 'Presentation and Disclosure in Financial Statements	1-Jan-27	Apr-24
Amendments to IAS 21 Lack of Exchangeability	1-Jan-25	Aug-23

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

5 Financial risk management

5.1 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.



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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.

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.

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.

1.2 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.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to term of the financial instrument and economic sectors.

The National Bank of Ethiopia (NBE) sets credit risk limit for a single borrower, one related party and all related parties to not exceed 25%, 15% and 35% of Bank's total capital amount as of the reporting quarterly period respectively.



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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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.

2.2 Credit quality analysis

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

	Stage 1	Stage 2	Stage 3	30 June 2024 Birr'000	30 June 2023 Birr'000
Stage 1	38,497,836			38,497,836	33,341,813
Stage 2		1,956,531		1,956,531	2,166,915
Stage 3			1,210,642	1,210,642	1,542,915
Total gross exposure	38,497,836	1,956,531	1,210,642	41,665,009	37,051,643
Loss allowance	(188,574)	(13,377)	(353,955)	(555,906)	(577,292)
Net carrying amount	38,309,262	1,943,154	856,687	41,109,103	36,474,351

Off balance sheet items

	Stage 1	Stage 2	Stage 3	30 June 2024 Birr'000	30 June 2023 Birr'000
Stage 1	5,008,073			5,008,073	5,429,674
Stage 2		-	-	-	26,212
Stage 3				-	-
Total gross exposure	5,008,073	-	-	5,008,073	5,455,886
Loss allowance	(12,079)	-	-	(12,079)	(18,084)
Net carrying amount	4,995,994	-	-	4,995,994	5,437,801

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

Loans and Advance By Product

	Stage 1	Stage 2	Stage 3	Birr'000 Birr'000	30 June 2023 Birr'000
Advance against Import Bills	42,840	-	-	42,840	13,077
Merchandise	164,930	-	-	164,930	164,938
Overdraft	5,286,086	-	57,959	5,344,046	5,304,426
Pre-Shipment	7,408,472	110,481	147,251	7,666,204	6,949,185
Term Loan	25,595,508	1,846,049	1,005,432	28,446,989	24,620,016
Grand Total	38,497,836	1,956,531	1,210,642	41,665,009	37,051,643

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Credit concentrations by sector and banking service

The bank focuses on the diversification of its lending portfolio by setting sectoral limits to ensure that its is not negatively impacted by a large exposure default.

The Bank monitors credit risk by sectorial distribution against its own risk concentration limit. An analysis of concentrations of credit risk at 30 June 2024 is give below.

Sectors

	Conventional	Interest Free Banking	Grand Total
	Birr'000	Birr'000	Birr'000
Agriculture	392,239	48,233	440,472
Construction and Building	6,007,118	145,427	6,152,545
Consumer Loan	3,757,531	25,745	3,783,277
Domestic Trade Services	5,934,542	313,919	6,248,461
Export and Import	15,810,286	675,232	16,485,518
Hotel and Tourism	876,241	-	876,241
Manufacturing and Industry	4,051,134	409,469	4,460,603
Transport and Communication	2,969,476	248,416	3,217,892
Total gross exposure	39,798,568	1,866,441	41,665,009
- Loss allowance	(544,154)	(11,752)	(555,906)
Net	39,254,413	1,854,689	41,109,103

The Bank monitors credit risk by sectorial distribution against its own risk concentration limit. An analysis of concentrations of credit risk at 30 June 2023 is give below.

Sectors

	Conv'l Banking	Interest Free Banking	Grand Total
	Birr'000	Birr'000	Birr'000
Agriculture	295,172	1,167	296,339
Construction and Building	5,279,828	31,903	5,311,732
Consumer Loan	3,207,264	30,489	3,237,753
Domestic Trade Services	6,240,931	401,583	6,642,514
Export and Import	13,883,992	481,699	14,365,691
Hotel and Tourism	823,713	-	823,713
Manufacturing and Industry	3,459,963	456,576	3,916,539
Transport and Communication	2,385,052	72,311	2,457,362
Total gross exposure	35,575,916	1,475,727	37,051,643
- Loss allowance	(571,687)	(5,605)	(577,292)
Net	35,004,228	1,470,122	36,474,351



ABAY BANK SHARE COMPANY
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Credit concentrations by regions

The below table summarizes the credit concentrations by regions as of June 30, 2024, and June 30, 2023. It provides an overview of the distribution of credit in various regions across different stages of credit risk classification.

Regions	Stage 1	Stage 2	Stage 3	30 June 2024	30 June 2023
				Birr'000	Birr'000
Addis Ababa	26,195,923	1,442,749	833,968	28,472,640	24,406,224
Afar	24,642	-	1,265	25,907	30,085
Amhara	10,141,043	441,952	205,839	10,788,834	10,607,933
Benishangul	31,574	1,692	8,890	42,155	41,053
Central Ethiopia	59,966	6,737	4,506	71,209	50,915
Diredawa	128,126	-	43	128,169	98,458
Gambella	12,632	1,897	21	14,550	22,481
Harar	10,479	-	2,928	13,406	11,577
Oromia	578,689	29,718	14,469	622,876	534,163
Sidama	175,635	24,955	24,044	224,634	153,781
Somalia	41,132	4,293	589	46,014	27,833
South Ethiopia	105,392	2,238	8,627	116,258	68,824
South West Ethiopia Region	69,524	-	-	69,524	21,215
Tigray	923,079	301	105,452	1,028,832	977,100
Grand Total	38,497,836	1,956,531	1,210,642	41,665,009	37,051,643

Loans and advances to customers by risk grade

The following table summarizes the risk category of loan and advances to customers during the year.

Risk grade	30 June 2024	30 June 2023
	Birr'000	Birr'000
1	3,628,236	3,142,869
2	24,533,146	20,233,404
3	10,336,454	9,965,540
4	1,956,531	2,166,915
5	429,305	173,645
6	194,792	706,929
7	586,545	662,341
8	-	-
Total gross exposure	41,665,009	37,051,643
Loss allowance	(555,906)	(577,292)
Net carrying amount	41,109,103	36,474,351



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2.3 Collateral on loans and advances

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Collateral Concentration by sector

Sector	Building	Machinery	Truck	Others	30 June 2024	30 June 2023
					Birr'000	Birr'000
Agriculture	437,622	-	3,519	330,642	771,783	523,672
Construction and Build.	10,215,969	174,056	1,589,387	2,985,472	14,964,883	12,147,808
Consumer Loan	6,704,420	-	19,693	1,335,905	8,060,019	5,332,342
Domestic Trade Services	12,491,914	-	324,675	837,677	13,654,265	14,579,589
Export and Import	15,706,004	-	1,387,813	984,650	18,078,466	17,728,800
Hotel and Tourism	1,754,869	-	37,954	10,200	1,803,022	1,864,139
Manufacturing & Ind.	4,980,264	-	1,432,772	61,233	6,474,269	5,687,940
Transport and Comm'n	1,196,991	-	10,783	6,386,974	7,594,749	5,383,560
Total	53,488,052	174,056	4,806,595	12,932,753	71,401,456	63,247,849
- Loss allowance					(555,906)	(577,292)
Net					70,845,550	62,670,558

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.

5.2.4 Amounts arising from ECL

i) Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 2.5

ii) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.



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The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).
- the Bank uses three criteria for determining whether there has been a significant increase in credit risk:
 - quantitative test based on movement in PD;
 - qualitative indicators; and
 - a backstop of 30 days past due,

iii) Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data;

a) Term loan exposures

Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, and compliance

- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
- Internally collected data on customer behavior – e.g. utilization of credit card facilities
- Affordability metrics

b) Overdraft exposures

- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilization of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions



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Grade	Score	Risk
1	$\geq 85\%$	Bankable
2	70-84%	Bankable
3	60-69.9%	Bankable
4	50-59.9%	Bankable
5	40-49.9%	Bankable
6	30-39.9%	Not bankable
7	25-29.9%	Not bankable
8	$< 25\%$	Not bankable

The term bankable indicates that the borrower's loan request is feasible and acceptable by the Bank, after passing through rigorous business and risk analysis.

The grading parameters are mainly five that encompass sub-parameters allotted with score from 100 points.

Parameter	Weight
Financial Risk/Strength of Financial Management System	35%
Business/industry Risk	10%
Management Risk	15%
Account performance Risk	25%
Customer Relationship Risk	15%

In order to classify the outstanding loans according to the risk grade of debtor, the following assumptions are used because of the fact that loans are not regularly graded except at the initial stage of the credit assessment.

- Consumer loans (including staff loans) are assigned grade 1 because of the fact that such loans are regularly repaid from salary account without any delinquency and arrears.

All loans and advances assumed to be graded as follows.

- All Pass consumer loans are assigned with risk grade 1.
 - All Pass status loans & advances with exceptions of consumer loan are assigned with risk grade 2.
 - All Special Mention status loans & advances are assigned with risk grade 3
 - All Sub-Standard status loans & advances are assigned with risk grade 4
 - All Doubtful status loans & advances are assigned with risk grade 5.
 - All Loss status loans & advances are assigned with risk grade 6.
 - All financial guarantees are assigned with risk grade 1
- The bank hasn't any outstanding loans & advances with grade 7 & 8.

iv) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.



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v) Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2)

vi) Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.



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In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

vii) Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

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

External information considered includes economic data and forecasts published by Fitch Solutions formerly known as Business Monitor International, an external and independent market intelligence and research institution. This is in addition to industry –level, semi – annual NPL trends across statistically comparable sectors.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior management. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.

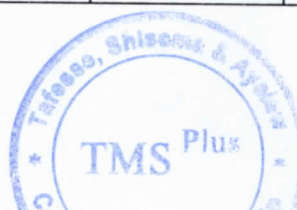
The key drivers for credit risk for each of the Bank's economic sectors is summarized below:

Sector (Product)	Macroeconomic factor		
Cluster 1 Agriculture, Consumer loans, Overdraft, Interest free financing	Goods exports, USD		
Cluster 2 Domestic Trade Services, Mining and energy, Transport, Health, Merchandise, Financial services	-	-	-
Cluster 3 Building and Construction, Hotel and tourism, Manufacturing and production, Industry, Realstate, Housing and construction	Goods imports, USD	Nominal GDP, USD	Real GDP per capita, USD (2010 prices)
Cluster 4 Export, Import, Advance against import bills, International trade	Goods imports, USD		

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The Bank defined a statistically significant correlation threshold with macroeconomic of 50%. No statistically significant correlation was observed for Cluster 2, as a result no macroeconomic adjustment is observed.

Indicator	30-Jun-22	30-Jun-23	30-Jun-24
Consumer price index inflation, 2010=100, ave	763	935	1,070
Exports of goods and services, USD	9,396	10,689	11,818
Government domestic debt, LCU	1,601,205	1,831,600	2,059,995
LCU/USD, ave	53	57	59
Nominal GDP, LCU	6,324,877	8,013,282	9,616,084
Private final consumption, LCU	4,706,091	5,637,460	6,537,715
Total domestic demand, LCU	6,554,527	7,774,860	9,014,880
Savings, LCU	1,139,738	1,333,876	1,571,134
Population	122,292,044	125,261,131	128,250,164
Consumer price index inflation, 2010=100, eop	757	893	999
M1, LCU	519,050	584,105	660,745
M2, LCU	1,669,935	1,932,335	2,247,120
Current expenditure, LCU	510,010	596,728	716,557
Goods imports, USD	15,798	16,433	17,419
Goods exports, USD	4,137	4,393	4,740
Current account balance, USD	(4,804)	(4,748)	(4,996)
Import cover months	2	2	2
Total household spending, LCU	5,494,617	6,584,552	7,636,051
Nominal GDP, USD	115,100	130,089	144,653
Real GDP, LCU (2010 prices) = *LCU million	1,031,007	1,097,146	1,172,494
Real GDP, USD (2010 prices) = * by million	71,550	76,140	81,369
Real GDP per capita, USD (2010 prices)	567	589	614
Nominal GDP, USD (PPP) = * by million	358,558	394,407	428,363
Private final consumption, USD	87,766	99,434	109,823
Private final consumption per capita, USD	0	0	0
Government final consumption, LCU	487,844	566,298	646,227
Government final consumption, USD	9,106	9,990	10,858
Exports of goods and services, LCU	503,898	605,981	703,534
Exports of goods and services per capita, USD	0	0	0
Imports of goods and services, LCU	887,821	1,004,879	1,106,430
Imports of goods and services, USD	16,575	17,735	18,598
Total domestic demand, USD	122,279	137,135	151,433
Total domestic demand per capita, USD	0	0	0
Unemployment, % of labour force, ave	3	3	3
Real effective exchange rate index	15	10	8
LCU/USD, eop	55	58	61
Total revenue, LCU	476,482	648,397	886,025
Total revenue, USD	8,877	11,412	14,856



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Indicator	30-Jun-22	30-Jun-23	30-Jun-24
Total expenditure, LCU	681,893	857,966	1,104,728
Total expenditure, USD	12,721	15,114	18,534
Current expenditure, USD	9,525	10,522	12,031
Budget balance, LCU	(205,411)	(209,569)	(218,704)
Budget balance, USD	(3,844)	(3,702)	(3,678)
Services imports, USD	6,267	6,697	7,183
Services exports, USD	5,569	5,898	6,246
Total reserves ex gold, USD	3,160	3,649	4,137
Total external debt stock, USD	40,112	44,667	49,384
Long-term external debt stock, USD	38,315	42,836	47,517

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing semi – annual historical data over the past 5 years.
The below scenario weightings have been observed:

Summary of scenario weightings

Scenario	Base	Downturn (downside)	Optimistic (upside)
Cluster 1	100%	-	-
Cluster 2	100%	-	-
Cluster 3	92%	8%	-
Cluster 4	100%	-	-

viii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out.



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When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of: its remaining lifetime PD at the reporting date based on the modified terms; with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

ix) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- o Probability of default (PD);
- o Loss given default (LGD); and
- o 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. The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.



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EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type; ◦ collateral type; ◦ industry; and ◦ date of initial recognition;
- credit risk grading; ◦ LTV ratio for retail mortgage ◦ Geo. location of the borrowe ◦ remaining term to maturity;

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

5.2.5 Reconciliation of total gross carrying amounts

The following table summarizes the movement of total gross carrying amount of loan and advances during the year ended 30 June 2024.

Reconciliation of total gross carrying amounts				30 June 2024
	Stage 1	Stage 2	Stage 3	Birr'000
Balance at 1 July	33,341,813	2,166,915	1,542,915	37,051,643
Transfer to 12 months ECL	399,251	(321,552)	(77,699)	-
Transfer to Lifetime ECL not credit impaired	(1,451,255)	1,473,822	(22,567)	-
Transfer to Lifetime ECL credit impaired	(468,861)	(148,989)	617,850	-
Net remeasurement of Loss allowance	(1,733,494)	(271,424)	(13,492)	(2,018,409)
Net financial assets originated or purchased	22,618,246	451,549	181,791	23,251,586
Financial assets derecognised	(14,207,864)	(1,393,791)	(1,018,155)	(16,619,810)
Balance at 30 June 2024	39,051,947	1,956,531	1,210,642	41,665,009

ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

The following table summarizes the movement of total gross carrying amount of loan and advances during the year ended 30 June 2023.

	Stage 1	Stage 2	Stage 3	30 June 2023 Birr'000
Balance at 1 July	25,498,879	1,160,662	756,672	27,416,214
Transfer to 12 months ECL	181,447	(144,061)	(37,386)	(0)
Transfer to Lifetime ECL not credit impaired	(1,379,645)	1,384,698	(5,052)	0
Transfer to Lifetime ECL credit impaired	(730,955)	(49,415)	780,370	-
Net remeasurement of Loss allowance	(196,977)	(118,213)	134,655	(180,536)
Net financial assets originated or purchased	19,861,759	770,378	35,020	20,667,157
Financial assets derecognised	(9,892,695)	(837,134)	(121,364)	(10,851,192)
Balance at 30 June 2023	33,341,813	2,166,915	1,542,915	37,051,643

2.6 Loss allowance

a) Loss allowance movement

The following table summarizes the movement of the loss allowance of loan and advances during the current year.

	Stage 1	Stage 2	Stage 3	30 June 2024 Birr'000
Balance at 1 July, 2023	182,842	19,431	375,019	577,292
Transfer to 12 months ECL	16,790	(2,394)	(14,396)	-
Transfer to Lifetime ECL not credit impaired	(4,926)	7,183	(2,257)	-
Transfer to Lifetime ECL credit impaired	(2,853)	(2,620)	5,473	-
Net remeasurement of Loss allowance	(23,007)	284	155,083	132,360
Net financial assets originated or purchased	125,642	3,755	21,825	151,222
Financial assets derecognised	(105,913)	(12,262)	(186,792)	(304,968)
Balance at 30 June 2024	188,574	13,377	353,955	555,906

The slight decreased in Expected Credit Loss (ECL) is mainly attributed to the improvement of a few loans and enhancement of forward looking information.

The following table summarizes the movement of the loss allowance of loan and advances during the year ended 30 June 2023.

	Stage 1	Stage 2	Stage 3	30 June 2023 Birr'000
Balance at 1 July, 2022	209,924	11,609	166,411	387,944
Transfer to 12 months ECL	4,907	(1,168)	(3,739)	-
Transfer to Lifetime ECL not credit impaired	(10,134)	10,640	(505)	-
Transfer to Lifetime ECL credit impaired	(4,325)	(470)	4,796	-
Net remeasurement of Loss allowance	(11,342)	(620)	239,852	227,890
Net financial assets originated or purchased	117,470	8,242	3,687	129,399
Financial assets derecognised	(123,657)	(8,801)	(35,483)	(167,941)
Balance at 30 June 2023	182,842	19,431	375,019	577,292

ABAY BANK SHARE COMPANY
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b) Loss allowance by sector and banking services

Sector	Conv'nal Banking	Interest Free Banking	30 June 2024	30 June 2023
	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture	19,305	210	19,515	15,123
Construction and Build.	129,824	533	130,357	89,436
Consumer Loan	11,633	88	11,721	25,370
Domestic Trade Services	123,028	5,954	128,983	169,823
Export and Import	226,119	2,889	229,008	237,660
Hotel and Tourism	1,886	-	1,886	3,847
Manufacturing & Ind.	8,887	652	9,539	14,932
Transport and Comm'n	23,472	1,425	24,897	21,102
	544,154	11,752	555,906	577,292

c) Loss allowance by risk grade

The following table summarizes the risk category of loan and advances impairment during the year.

Risk grade	30 June 2024	30 June 2023
	Birr'000	Birr'000
1	4,548	4,908
2	129,078	125,651
3	54,948	52,284
4	13,377	19,431
5	75,678	34,234
6	25,856	143,127
7	252,421	197,658
8	-	-
Total gross exposure	555,906	577,292



d) Loss allowance by type of loan and advance products and regions

The following table summarizes the loss allowance of loan and advances by type of products during the current and previous years.

	Stage 1	Stage 2	Stage 3	30 June 2024	30 June 2023
				Birr'000	Birr'000
Addvance against Import Bills	539	-	-	539	52
Merchandise	1,118	-	-	1,118	2,953
Overdraft	31,804	-	8,602	40,406	34,040
Pre-Shipment	54,103	1,448	93,961	149,512	136,772
Term Loan	101,010	11,929	251,393	364,331	403,476
Grand Total	188,574	13,377	353,955	555,906	577,292



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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The subsequent table summarizes the loss allowance of loan and advances in each region for the current and previous fiscal years.

				30 June 2024	30 June 2023
				Birr'000	Birr'000
Regions	Stage 1	Stage 2	Stage 3		
Addis Ababa	135,705	8,042	279,116	422,862	356,946
Afar	82	-	176	258	253
Amhara	39,309	4,778	29,901	73,988	54,866
Benishangul	122	9	1,825	1,957	1,047
Central Ethiopia	246	57	451	754	190
Diredawa	277	-	4	282	170
Gambella	35	6	21	62	109
Harar	17	-	1,617	1,634	379
Oromia	1,904	215	1,447	3,566	2,798
Sidama	475	228	15,889	16,592	10,518
Somalia	129	21	59	210	115
South Ethiopia	492	18	863	1,373	311
South West Ethiopia	183	-	-	183	61
Tigray	9,598	1	22,586	32,185	149,530
Grand Total	188,574	13,377	353,955	555,906	577,292

5.2.7 Guarantees and commitments

The maximum exposure to credit risk related to guarantees and letter of credit is the maximum amount the bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk related to loan commitment is the full amount of the commitment. The below table shows the bank's outstanding credit risk exposure of financial guarantee, letter of credit and loan commitment.

				30 June 2024	30 June 2023
				Birr'000	Birr'000
	Below	1-3 years	Over 3 years		
Financial guarantees	20,000	785,561	-	805,561	2,077,901
Letters of credit net-off margin held	2,416,310	-	-	2,416,310	1,444,887
Loan commitments	1,786,202	-	-	1,786,202	1,933,098
Grand Total	4,222,512	785,561	-	5,008,073	5,455,886

Off balance sheet items by risk grade

The following table summarizes the risk category of off balance sheet items which include Loan commitments of Revolving credit facilities and Overdraft facilities (Unutilized Amounts), Letter of Credit LC and Financial Guarantee for the year ended 30 June 2023 and 30 June 2024.

		30 June 2024	30 June 2023
		Birr'000	Birr'000
Risk grade			
1		3,221,871	3,858,029
2		403,233	880,719
3		1,382,969	690,926
4		-	26,212
Total gross exposure		5,008,073	5,455,886
Loss allowance		(12,079)	(18,084)
Net carrying amount		4,995,994	5,437,801



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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The following table summarizes the movement of the Loan commitments, Lc commitments and financial guarantee contracts provision expense (off balance sheet exposures) during the year.

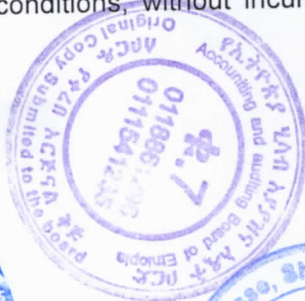
	Stage 1	Stage 2	Stage 3	30 June 2024 Birr'000
Balance at 1 July 2023	17,620	464	-	18,084
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(77)	-	77	-
Net remeasurement of Loss allowance	2,898	-	(77)	2,822
Net financial assets originated or purchased	6,149	-	-	6,149
Financial assets derecognised	(14,512)	(464)	-	(14,976)
Balance at 30 June 2024	12,079	-	-	12,079

The following table summarizes the movement of the Loan commitments and financial guarantee contracts provision expense (off balance sheet exposures) for the year ended 30-June-2023.

	Stage 1	Stage 2	Stage 3	30 June 2023 Birr'000
Balance at 1 July	25,499	52	-	25,550
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	(0)	0	-	-
Transfer to Lifetime ECL credit impaired	(173)	-	173	-
Net remeasurement of Loss allowance	(1,307)	18	(173)	(1,462)
Net financial assets originated or purchased	13,697	447	-	14,144
Financial assets derecognised	(20,096)	(52)	-	(20,147)
Balance at 30 June 2023	17,620	464	-	18,084

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.



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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3.1 Management of liquidity risk

Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cashflows under both normal and stress circumstances.

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 measures used by the bank for managing liquidity risk are the ratio of net liquid assets to net current liabilities and maturity analysis. 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 net current liabilities

At Close of the year
Average for the year
Maximum for the year
Minimum for the year

30 June 2024 30 June 2023

23.27% 20.52%
20.41% 20.77%
23.27% 26.30%
17.83% 18.01%



3.2 Maturity analysis of financial asset and liabilities

The table below summarizes the Bank's liquidity risk as at 30 June 2024, categorized into relevant maturity groupings based on contractual maturity date.

30 June 2024	0-30 days Birr'000	31-90 days Birr'000	91-180 days Birr'000	181-365 days Birr'000	Over 1 year Birr'000	30 June 2024 Birr'000
Financial Assets						
Cash and bank bal.	8,097,210	277,486.62	249,788	390,741	2,678,937	11,694,162
Loans & advances	278,978	2,225,263	154,028	5,924,718	32,526,116	41,109,103
Equity investments	-	-	-	-	476,004	476,004
Other financial Assets	448,600	423,587	636,729	378,978	4,931,805	6,819,698
Total Fin. Assets (a)	8,824,788	2,926,336	1,040,544	6,694,437	40,612,862	60,098,967
Financial Liabilities						
Deposits from customers	1,007,049	3,645,750	3,243,086	5,482,007	38,296,012	51,673,904
Deposits from other banks	208,503	318,345	325,308	100,000	-	952,156
Other financial liabilities	993,063	1,618,607	18,141	18,088	381,762	3,029,661
Total fin. liabilities (b)	2,208,616	5,582,701	3,586,536	5,600,095	38,677,773	55,655,721
NET Mismatch (a - b)	6,616,172	(2,656,365)	(2,545,991)	1,094,341	1,935,089	4,443,246
Cumulative Mismatch	7,170,283	4,513,918	1,967,927	3,062,268	4,997,357	9,440,603

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. The maturity analysis is based on NBE requirements.



BAY BANK SHARE COMPANY
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3.3 Liquidity risk of relevant maturing group

The table below summarizes the bank's liquidity risk as at 30 June 2023 and 30 June 2024, categorized into relevant maturity grouping based on contractual maturity date.

	Below 1 year	1-3 years	Over 3 years	30 June 2024 Birr'000	30 June 2023 Birr'000
Total gross exposure	14,094,546	6,922,557	20,647,906	41,665,009	37,051,643
- Loss allowance	(307,670)	(71,948)	(176,288)	(555,906)	(577,292)
Net	14,340,986	6,850,609	20,471,618	41,109,103	36,474,351

	Maturity grouping			30 June 2024 Birr'000	30 June 2023 Birr'000
	Below 1 year	1-3 years	Over 3 years		
Financial assets					
Financial guarantees	20,000	785,561	-	805,561	2,077,901
Loan commitments	4,202,512	-	-	4,202,512	3,377,985
- Loss allowance	(12,073)	(6)	-	(12,079)	(18,084)
Net	4,222,512	785,561	-	4,995,994	5,437,801

4 Market risk

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

i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to the changes in foreign exchange rates. The Bank is exposed to exchange rate risks to the extent of balances and transactions denominated in currencies other than Ethiopian Birr. Management has set limits to manage the Bank's foreign exchange risk against its functional currency.

The table below summarizes the foreign currency exposure for the year ended 30 June 2024.

	USD Birr'000	GBP Birr'000	EUR Birr'000	AED Birr'000	ZAR Birr'000	Grand Total Birr'000
Financial Assets:						
Cash and bank bal.	2,440,091	16,316	134,817	11,646	671	2,603,541
Other assets	-	-	-	-	-	-
Total	2,440,091	16,316	134,817	11,646	671	2,603,541
Financial Liabilities:						
Deposit from customer	1,395,023	59	12,455	-	-	1,407,537
Other liabilities	-	-	-	-	-	-
Total	1,395,023	59	12,455	-	-	1,407,537
Net exposure	1,045,068	16,258	122,362	11,646	671	1,196,005

ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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The table below summarizes the foreign currency exposure for the year ended 30 June 2023.

	USD Birr'000	GBP Birr'000	EUR Birr'000	AED Birr'000	ZAR Birr'000	Grand Total Birr'000
Financial Assets:						
Cash and bank bal.	1,027,540	1,226	181,995	8,110	5,922.16	1,224,793
Other assets	-	-	-	-	-	-
Total	1,027,540	1,226	181,995	8,110	5,922.16	1,224,793
Financial Liabilities:						
Deposit from customer	371,151	84	19,685	-	-	390,920
Other liabilities	-	-	-	-	-	-
Total	371,151	84	19,685	-	-	390,920
Net exposure	656,389	1,142	162,309	8,110	5,922.16	833,873

ii) Sensitivity analysis for foreign exchange risk

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

Description	At 30 June 2024			At 30 June 2023		
	Carrying	10%	10%	Carrying	10%	10%
	Amount Birr'000	Depreciation Birr'000	Appreciation Birr'000	Amount Birr'000	Depreciation Birr'000	Appreciation Birr'000
Assets						
USD	2,440,091	(244,009)	244,009	1,027,540	(102,754)	102,754
GBP	16,316	(1,632)	1,632	1,226	(123)	123
EUR	134,817	(13,482)	13,482	181,995	(18,199)	18,199
AED	11,646	(1,165)	1,165	8,110	(811)	811
ZAR	671	(67)	67	5,922	(592)	592
	2,603,541	(260,354)	260,354	1,224,793	(122,479)	122,479
Liabilities						
USD	1,395,023	139,502	(139,502)	535,606	53,561	(53,561)
GBP	59	6	(6)	19,213	1,921	(1,921)
EUR	12,455	1,245	(1,245)	38	4	(4)
AED	-	-	-	-	-	-
ZAR	-	-	-	-	-	-
	1,407,537	140,754	(140,754)	554,857	55,486	(55,486)
Total (Dec.)/inc. effect on	4,011,078	(119,600)	119,600	1,779,650	(66,994)	66,994

At 30 June 2024 if the Birr had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, profit before tax would have been lower/higher 119.6 million Birr.

BAY BANK SHARE COMPANY
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iii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises. The Bank closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of financial assets and liabilities carried on the statement of financial position.

Sensitivity analysis for interest rate risk

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

Interest Bearing assets

Loans and advance to customers at amortized cost
 Time deposit

Total Interest Bearing assets



Interest Bearing liabilities

Deposits from customers
 Fixed time deposit

Total Interest Bearing Liabilities

Net interest income increase/decrease

Carrying Amount	10% Increase	10% Decrease
41,665,009	4,166,501	(4,166,501)
975,476	97,548	(97,548)
42,640,485	4,264,048	(4,264,048)
48,234,382	4,823,438	(4,823,438)
4,391,678	439,168	(439,168)
52,626,060	5,262,606	(5,262,606)
(9,985,575)	(998,558)	998,558

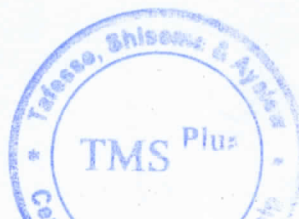
If interest rate had increased/decreased by 10% against interest bearing assets and liabilities, 'with all other variables held constant, profit before tax would have been lower/higher by 998.56 million Birr respectively.

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.

Minimum capital requirement

According to the Licensing & Supervision of Banking Business Directive No SBB/78/2021 of the National Bank of Ethiopia, all Banks whose paid-up capital is below Birr 5 billion (Five billion Birr) shall raise their paid-up capital to the said amount by June 30, 2026. Consequently, the Bank established a proactive action plan for capital enhancement and met the required capital requirement limit two years early. In addition, the Bank has accomplished its goal of raising a paid-up capital balance of Birr 6.5 billion by June 2024.



BAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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Capital adequacy ratio

According to the Licensing & Supervision of Banking Business Directive No SBB/78/2021 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.

Primary capital

Share capital
 Share premium
 Legal reserve

Supplimentary capital

OCI-Equity Investment
 OCI-Defined Employee Benefit
 Regulatory risk reserve

Total Capital

Total risk weighted assets

Primary Capital to RWA Ratio
 Total Capital to RWA Ratio
 Minimum required capital ratio

Excess /short-fall

30 June 2024	30 June 2023
Birr'000	Birr'000
6,015,344	4,733,303
39,108	35,388
1,686,601	1,308,302
7,741,053	6,076,993
321,013	171,751
(74,868)	(25,560)
301,230	124,983
547,375	271,174
8,288,428	6,348,167
55,203,834	49,246,297
14.02%	11.78%
15.01%	12.34%
8.00%	8.00%
6.02%	4.34%

The Bank has satisfied both the NBE requirement of a capital adequacy ratio of 8% and the capital management policy's stated internal risk exposure limit of 10%.

6 Interest income

Loans and advances to customers
 Treasury Bills
 Treasury Bond
 Government Bonds
 Time deposits

30 June 2024	30 June 2023
Birr'000	Birr'000
6,285,031	5,265,006
50,650	122,485
174,545	34,640
52,442	28,267
105,059	97,124
6,667,727	5,547,522



ABAY BANK SHARE COMPANY
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Interest expense

Deposits from customers
 Deposits from cooperatives and other Banks
 Deposits from public agencies

30 June 2024	30 June 2023
Birr'000	Birr'000
1,721,704	1,412,513
347,589	152,685
24,229	3,991
2,093,522	1,569,189

Fee and commission income

Commission income Local
 Commission income Foreign
 Service charges Local
 Service charges Foreign
 Processing fees

30 June 2024	30 June 2023
Birr'000	Birr'000
285,459	273,596
336,658	363,970
38,158	27,134
562,255	548,216
25,521	29,063
1,248,051	1,241,979

9 Fee and commission expense

Legal Fees
 Municipality Fees
 Membership fee
 License Fees
 Correspondent Charges
 Motor Vehicles Inspection & Circulation Fees
 Bank Charges & Commissions
 Ethswitch Remote-on us expense
 Swift charge

30 June 2024	30 June 2023
Birr'000	Birr'000
6	130
6,101	4,241
970	551
1,155	445
1,732	1,846
308	252
6,019	36,028
11,800	9,449
2,163	1,465
30,254	54,407

10 Net gain on foreign exchange translation

Gain on Foreign Exchange Valuation
 Loss on Foreign Exchange Valuation

30 June 2024	30 June 2023
Birr'000	Birr'000
329,344	218,300
(136,890)	(63,373)
192,454	154,927



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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1 Other operating income

	30 June 2024 Birr'000	30 June 2023 Birr'000
Rental income	293	6,029
Gain on disposal of properties	17,085	390
Penalty Charge Income	12,163	14,195
Dividend earned	34,148	15,216
Other income	79,789	21,553
	143,478	57,383

2 Loan impairment charge

	30 June 2024 Birr'000	30 June 2023 Birr'000
Loan impairment charge	(21,337)	207,867
	(21,337)	207,867

3 Impairment losses on other assets/liabilities

	30 June 2024 Birr'000	30 June 2023 Birr'000
Impairment losses on other assets	107,507	11,335
Impairment losses on Treasury Bill	26	103
Impairment losses on Cash & bank Balance	171	6
	107,704	11,444

14 Personnel expenses

	30 June 2024 Birr'000	30 June 2023 Birr'000
Staff Salaries	1,389,690	1,004,896
Staff allowances	707,108	485,815
Pension costs – Defined Employee Benefit	152,930	110,778
Defined Employee Benefit	43,449	26,648
Other staff expenses	217,762	338,859
	2,510,939	1,966,996



ABAY BANK SHARE COMPANY
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FOR THE YEAR ENDED 30 JUNE 2024

5 Other operating expenses

	30 June 2024 Birr'000	30 June 2023 Birr'000
Advertisement & publicity	90,621	53,305
Amortisation Leasehold Land	2,170	2,661
Donations	201	34,555
Audit fees	424	423
Consultancy fee	1,288	5,751
Directors' related expenses	2,370	1,580
Entertainment	771	901
Event organization expense	118	114
Fuel and lubricants	27,188	19,159
Insurance	141,841	15,921
IT support	155,440	102,104
Loss on Desposal of Assets	3,193	1,398
Office supplies	136,730	106,288
Other Operating expenses	166,194	99,776
Perdiem administration	7,195	9,796
Repairs and maintenance	20,973	20,282
Security, Messengers & Janitors expenses	299,683	198,406
General assembly	2,678	1,985
Meeting accomodation	6,213	6,299
Fund transfer fees and expenses	7,882	8,795
Staff loan - Amortisation	16,511	9,309
Sundries	4,068	2,126
Telephone expenses	39,825	27,798
Provision Expense on LCS	32	67
Provision Expense on Financial Gurantee	(608)	535
Provision expense on Court Case	50	1,104
Provision expense on OD & Revolving Facilities	(5,429)	(8,068)
Sponsorship expense	8,636	8,990
Transport and fuel	16,276	14,843
Utilities	6,864	5,751
Wages for non-permanent employees.	4,011	2,785
	1,163,408	754,737



10 Company income and deferred tax liability

a) 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:



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

IFRS accounting profit

Add: Disallowed expenses

Entertainment
 Penalties
 Award/Gifts
 Sport expense
 Current service cost, past service cost and interest
 Impairment on other assets
 Provision expense on Court Case
 Depreciation expense of PPE for accounting purpose
 Amortization expense of intangible assets for accounting purpose
 Impairment on Loans and Advances as per IFRS
 Interest expense on Lease liability
 Depreciation Expense - ROUA
 Amortisation Leasehold Land
 Prepaid staff expense
 Additional interest income recognized on employee benefit
 Accrued-Leave expenses (Total Leave expense -Current year Accrued Leave)
 Net Gain/loss on Disposal of property, plant and equipments (As per TAX)
 Provision expense of LCs, Guarantee, OD & revolving facilities
 Other receivable impairment expense

Sub total

Less: Tax exempted income and allowed expenses

Dep'n & amortization expense of PPE and intangibles assets_Tax use
 80% of NBE provision on loans
 80% of Other receivable asset impairment
 Interest income taxed at source- local deposit
 Interest income taxed at source- Treasury Bill
 Interest Earned on Treasury Bonds
 Interest income taxed at source- Government Bond
 Dividend income taxed at source
 Net Gain or loss on Disposal of property, plant and equipments (As per IFRS)
 Define employee benefit paid as per tax base
 Accrued-Leave expenses as per tax base
 Quara Building Rent Income
 Provision expense on OD & Revolving Facilities
 Office rent amortization expense as per tax base

Sub total

Taxable profit

Current tax @30%

Add: Rental income tax (293 * 30%)

Current income tax

30 June 2024	30 June 2023
Birr'000	Birr'000
1,945,310	2,124,416
771	901
624	330
1,027	2,890
576	366
43,449	26,648
197	110
50	1,104
170,037	114,086
7,763	7,450
(21,337)	207,867
15,525	10,241
228,585	180,979
2,170	2,641
16,511	9,309
109,337	114,434
29,246	46,241
15,558	1,398
3,251	602
107,507	11,335
730,847	738,931
238,906	171,523
(13,776)	172,299
135,150	97,851
105,060	97,124
50,650	122,485
174,545	34,640
52,442	28,267
34,148	15,216
13,892	390
4,790	8,917
4,246	8,211
293	6,029
9,257	8,068
261,128	188,540
1,070,729	959,559
1,605,428	1,903,788
481,629	571,136
88	1,809
481,717	572,945



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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b) Current income tax liability

Balance at the beginning of the year
 Prior year over /under paid
 Payment during the year
 Current year profit tax
 Withholding tax paid
 Balance at the end of the year

30 June 2024	30 June 2023
Birr'000	Birr'000
572,836	367,648
-	3,745
(572,836)	(371,393)
481,717	572,945
(13)	(109)
481,704	572,836

c) Income tax expense

Current income tax
 Deferred tax expense/(income) - profit or loss
Total charge to profit or loss
 Deferred tax expense/(income) - OCI
Total tax in statement of comprehensive income

30 June 2024	30 June 2023
Birr'000	Birr'000
481,717	572,945
(38,466)	-
443,250	572,945
16,030	-
459,280	572,945

d) Deferred tax assets

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:

Description	1 July, 2023	Credit (charge) to P/L	Credit (charge) to OCI	30 June 2024
	Birr'000	Birr'000	Birr'000	Birr'000
Deferred Tax Assets				
Provision for accrued leave	-	44,969	-	44,969
Post-employment benefit obligation	35,700	11,598	10,316	57,614
	35,700	56,567	10,316	102,583
Deferred Tax Liabilities				
Unrealized fair value (gain)/loss on equity invest.	(111,230)	-	(26,347)	(137,577)
PPE & Intangible assets	(34,851)	(18,100)	-	(52,951)
	(146,081)	(18,100)	(26,347)	(190,528)
Total net deferred tax assets/(liabilities)	(110,381)	38,466	(16,030)	(87,945)

Description

Deferred Tax Assets

Provision for accrued leave
 Post-employment benefit obligation

Deferred Tax Liabilities

Unrealized fair value (gain)/loss on equity invest.
 PPE & Intangible assets

Total net deferred tax assets/(liabilities)

1 July, 2022	Credit (charge) to P/L	Credit (charge) to OCI	30 June 2023
Birr'000	Birr'000	Birr'000	Birr'000
-	-	-	-
19,566	5,319	10,816	35,701
19,566	5,319	10,816	35,701
-	-	(111,230)	(111,230)
(20,176)	(14,675)	-	(34,851)
(20,176)	(14,675)	(111,230)	(146,081)
(610)	(9,356)	(100,414)	(110,380)



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

7 Cash and bank balance

	30 June 2024 Birr'000	30 June 2023 Birr'000
Local currency cash on hand	2,214,099	2,161,173
Foreign currency cash on hand	14,345	40,627
Cash held on NBE	6,876,993	4,862,253
Deposits with local banks	2	2
Deposits with foreign banks	2,589,196	1,184,166
Less: Bank balance impairment	(473)	(303)
	11,694,162	8,247,918
Maturity analysis		
Current	11,694,162	8,247,918
Non Current	-	-
	11,694,162	8,247,918

The cash held on NBE balance consists of 3.68 billion Birr of statutory reserve balance which constitutes 7% of the stated deposit balance. The equivalent reserve balance is released right away in the event that the deposit balance falls.

ECL by Class of Cash and Cash Equivalent Items

	30 June 2024 Birr'000	30 June 2023 Birr'000
Cash held on NBE	344	244
Deposits with foreign banks	129	59
Total ECL	473	303

Loans and advances to customers

	30 June 2024 Birr'000	30 June 2023 Birr'000
Agriculture	440,472	296,339
Construction and Building	6,152,545	5,311,732
Consumer Loan	3,783,277	3,237,753
Domestic Trade Services	6,248,461	6,642,514
Export and Import	16,485,518	14,365,691
Hotel and Tourism	876,241	823,713
Manufacturing and Industry	4,460,603	3,916,539
Transport and Communication	3,217,892	2,457,362
Total gross exposure	41,665,009	37,051,643
- Loss allowance	(555,906)	(577,292)
	41,109,103	36,474,351
Maturity analysis		
Current	13,786,875	10,200,891
Non Current	27,322,227	26,273,460
	41,109,103	36,474,351



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

9 Equity investments at fair value -OCI

Equity investments	Addition of the Year Birr'000	FV - OCI of the Period Birr'000	FV as at 30 June 2024 Birr'000	FV as at 30 June 2023 Birr'000
Abay Insurance S.C	7,809	(505)	60,430	53,127
Abay Industries S.C	5,200	(3,940)	190,144	188,884
Addis-Africa Int. Conv. & Exh. Center	-	(277)	71	348
Dessie Hidassie Building .C	-	-	100	100
Ethiswitch S.C	29,010	89,003	367,016	249,003
ACSI Bank S.C	-	3,541	17,758	14,217
Ethiopian Security Exchange	5,000	-	5,000	
	47,019	87,822	640,520	505,679

OCI equity investment reconciliation	30 June 2024 Birr'000	30 June 2023 Birr'000
At the beginning of the year	259,537	171,752
Re-measurement fair value gains/(loss) on equity investment, net of deferred tax	61,475	87,786
At the end of the year	321,013	259,537

The fair value of equity investments are estimated by independent consultant, price waterhouse Coopers (PWC). PWC used the market approach to value the Bank's investee Companies. Pwc used readily available market information of comparable companies to the investee companies being valued and adjusted for specific factors as a basis for fair valuation. The PWC applied level II inputs in determining fair value of bank's equity investments.

Valuation by multiples is based on actual market prices. By using this valuation method, the unknown value of the valuation object is calculated based on the known values of comparable objects (companies, transactions or IPOs). The selection of the appropriate multiple within a range requires judgment, considering qualitative and quantitative factors specific to the measurement.

Other Financial assets

a) Investment Securities

	30 June 2024 Birr'000	30 June 2023 Birr'000
Time deposit	975,476	1,662,267
Treasury bill	145,651	1,214,605
Treasury bond	2,978,334	1,141,920
Government Bond	979,541	527,354
	5,079,002	4,546,146
Less Impairment on investment securities	(254)	(227)
	5,078,748	4,545,919



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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b) Other receivables

Receivable from money transfer agents
 Staff receiveable
 Other receivables
 Less: impairment allowance

Total Other Financial Assets

Maturity analysis

Current
 Non Current

Other Non-financial assets

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

Prepaid employee benefit measured at fair valuation

Stages

Staff Loan Measured at Fair Value

Stage 1
 Stage 2
 Stage 3
Grand Total

1,229,251
 40,326
 5,209
1,274,786

30 June 2024 30 June 2023
Birr'000 Birr'000

184,306 200,437
 517,918 1,384
 1,060,782 937,187
 (22,056) (17,192)
1,740,950 1,121,816
6,819,698 5,667,735

30 June 2024 30 June 2023
Birr'000 Birr'000

(757,061) 601,915
 7,576,759 5,065,929
6,819,698 5,667,844

30 June 2024 30 June 2023
Birr'000 Birr'000

391,407 265,797
 447,096 267,860
 554,124 170,933
 2,057 1,188
1,394,684 705,778

30 June 2024 30 June 2023
Birr'000 Birr'000

560,876 557,681
 3,189 2,392
 516 8,686
564,581 568,759

The prepaid employee benefit balance presented under Other Non-financial Assets includes an amortized portion, which is accounted for as an expense over the period of the employee benefit. The difference of Birr 10.46 million is attributable to the amortization of the prepaid employee benefit recognized in the current year.



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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2 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, 2023	
Add: ROUA addition	
Add: Lease liability addition	
Add (Less): Depreciation and amortization expense on right of use asset	
Prior period adjustment	
Total	

30 June 2024	30 June 2023
Birr'000	Birr'000
927,495	639,439
454,124	321,585
177,349	176,649
(228,585)	(180,979)
(149,735)	(29,199)
1,180,648	927,495

Breakdown of right of use asset

Office Rent	
Land	
Total Right of use asset	

30 June 2024	30 June 2023
Birr'000	Birr'000
1,055,481	800,392
125,167	127,103
1,180,648	927,495

23 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

Lease liabilities balance – As at July 1, 2023	
Add: Lease liability addition of the year	
Add: Current year interest expense on lease liability	
Total	

30 June 2024	30 June 2023
Birr'000	Birr'000
507,520	391,992
92,668	105,287
15,525	10,241
615,713	507,520

Breakdown of Lease Liabilities

Office Rent	
Land	
Total lease liability	

30 June 2024	30 June 2023
Birr'000	Birr'000
495,657	385,585
120,056	121,935
615,713	507,520



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

1 Property, plant and equipment

Figures in Ethiopian Birr thousand

	Buildings	Motor Vehicles	Furniture & Fittings	Office Equipment	Computer & Accessories	Total Birr'000
Cost:						
As at 1 July 2022	91,175	189,248	148,310	148,110	290,584	867,427
Additions	74,813	210,584	98,145	205,944	92,387	681,873
Disposals	-	(994)	(147)	(1,052)	(2,485)	(4,679)
As at 30 June 2023	165,988	398,838	246,308	353,002	380,485	1,544,620
As at 1 July 2023	165,988	398,838	246,308	353,002	380,485	1,544,620
Additions	-	115,698	89,674	320,883	125,313	651,568
Disposals	-	(15,292)	(4,227)	(5,875)	(3,102)	(28,496)
As at 30 June 2024	165,988	499,244	331,755	668,010	502,696	2,167,692
Accumulated depreciation:						
As at 1 July 2022	2,052	67,141	39,411	62,633	120,955	292,192
Charge for the year	2,363	24,897	16,042	28,590	42,193	114,086
Disposals	-	(941)	(94)	(747)	(1,414)	(3,196)
As at 30 June 2023	4,415	91,097	55,359	90,477	161,734	403,082
As at 1 July 2023	4,415	91,097	55,359	90,477	161,734	403,082
Charge for the year	3,154	39,080	23,136	50,232	54,435	170,037
Disposals	-	(10,233)	(1,782)	(4,393)	(2,485)	(18,894)
As at 30 June 2024	7,569	119,944	76,713	136,316	213,683	554,225
Net book value:						
As at 30 June 2023	161,573	307,741	190,949	262,525	218,751	1,141,539
As at 30 June 2024	158,419	379,300	255,042	531,694	289,012	1,613,467

2 Intangible Assets

Description

Cost:

As at 1 July 2023
 Additions
 30 June 2024

30 June 2024 Birr'000	30 June 2023 Birr'000
78,833	78,833
17,953	-
96,786	78,833



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
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Accumulated amortization

As at 1 July 2023

Charge for the year

30 June 2024

Net book value:

As at 30 June 2024

30 June 2024	30 June 2023
Birr'000	Birr'000
59,251	51,801
7,763	7,450
67,014	59,251
29,772	19,582

The company purchased OFSAA software during the year, which satisfies IAS 38's recognition requirements for intangible assets and greatly aids the risk and compliance management department's anti-money laundering operations. It is anticipated that the asset will be useful for six years.

3 Construction in progress

As at 1 July 2023

Additions for the year

30 June 2024	30 June 2023
Birr'000	Birr'000
1,359,726	501,634
568,383	858,092
1,928,111	1,359,726

7 Non current asset held for sale

Cost

Opening

Additions/deduction

Balance at the end of the year

30 June 2024	30 June 2023
Birr'000	Birr'000
7,351	13,758
-	(6,407)
7,351	7,351

The Bank's policy is to pursue the timely realization of collateral in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations." The management had intended to sell the non-current asset held for sale within 12 months from the reporting date. However, due to unforeseen and immediate conditions resulting from ongoing conflict in the region where the collateral is located, the Bank has been unable to proceed with the sale or re-assess and measure the fair value of the asset.

28 Deposits from customers

Demand deposits

Savings deposits

Fixed Time deposit

Maturity analysis

Current

Non Current

30 June 2024	30 June 2023
Birr'000	Birr'000
17,498,041	12,883,713
30,736,341	25,454,887
4,391,678	3,430,915
52,626,060	41,769,515
52,626,060	41,769,516
52,626,060	41,769,516



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

9 Other Financial liabilities

	30 June 2024 Birr'000	30 June 2023 Birr'000
Audit fee payables	423	423
Borrowing from DBE	255,455	208,166
Cash payment order payable	169,132	169,477
Customers payables	638,940	351,074
Provision for bonus	100,000	150,000
Deferred guarantee income	1,513	5,605
Directors share of profit payable	1,350	1,350
Dividend payables	65,825	33,008
Exchange commission payable	9,958	17,367
Foreign transfers payables	50,880	45,134
Impairment Financial Gurantee	237	845
Impairment on L/C	121	89
Provision - on Overdraft Facility	6,125	2,906
Provision - on Revolving Facility	5,596	14,244
Long Outstanding payables	70,287	64,564
Margin Held Accounts	1,334,541	3,117,081
Refund payable	13	37
Shareholders payables	808	808
Staff leave payables	149,896	124,896
Cash indemnity allowance	35,086	24,270
Sundry payables	133,475	33,431
	3,029,661	4,364,775

As of 30 June 2024, the Bank had a dividend payable balance of 65.83 million Birr. This balance represents dividends declared by the Board of Directors in a prior period that have not yet been paid to shareholders due to various reasons.

*The sundry payables account includes blocked accounts payables, court cases payables, telephone payable and other miscellaneous.

Reconciliation of contract liabilities (Deferred guarantee income)

	30 June 2024 Birr'000	30 June 2023 Birr'000
Balance at 1 July	5,605	1,795
Deferred guarantee income recognized during the year	(5,605)	(1,795)
Deffered guarantee income during the year	1,513	5,605
Balance at 30 June 2024	1,513	5,605

The above table summarizes the opening and clsoing balance of deferred guarantee income and revenue of Birr 5.61 million was recognized in 2024 for performance obligations satisfied (or partially satisfied) in prior periods..



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

0 Non-financial liabilities

	30 June 2024 Birr'000	30 June 2023 Birr'000
Stamp duty payable	7,956	2,365
Tax payables	34,515	31,674
Pension payable	9,117	9,720
Provisions	1,154	1,104
Other payables	3,274	8,394
	56,016	53,257
Total other financial and non financial liabilities	3,085,677	4,418,032
Maturity analysis		
Current	3,029,661	4,364,775
Non Current	56,016	53,257
	3,085,677	4,418,032

1 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 payout 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.

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Amount recognized in the profit or loss		
Current service cost	15,890	9,560
Interest cost	27,559	17,088
Past service cost	-	-
Total expense recognized	43,449	26,648

The movements recognized under other comprehensive income (OCI) for the year ended 30 June 2024 are

Amount recognized in other comprehensive income:

	30 June 2024 Birr'000	30 June 2023 Birr'000
Defined benefit obligation - OCI at the beginning of the period	(50,796)	(25,560)
Actuarial (Gains)/Losses on economic assumptions	(19,316)	(8,870)
Actuarial (Gains)/Losses on experience	(15,072)	(27,181)
Deferred tax asset(liability) on re-measurement gain or loss	10,316	10,815
Total defined benefit obligation - OCI	(74,868)	(50,796)



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Net defined benefit liability

The below table summarizes the key movements in the net defined benefit liability during the period, including changes in the present value of the defined benefit obligation, plan assets, and the effect of the asset ceiling.

Description	Opening Balance	Movement During Period	Closing Balance
(i) Plan Assets	-	-	-
(ii) Present Value of the Defined Benefit Obligation	(119,001)	(73,047)	(192,048)
(iii) Effect of the Asset Ceiling	-	-	-
Net Defined Benefit Liability	(119,001.00)	(73,047.00)	(192,048.00)

There are no separate assets held which are creditor remote and are held in the name of a separate legal entity to the Bank set aside to fund the Benefits. Thus, the Bank have therefore not included any assets in the valuation.

Sensitivity of the Defined Benefit Obligation (DBO) to Changes in Key Assumptions

The table below provides a sensitivity analysis showing how changes in the key actuarial assumptions impact the valuation of the defined benefit obligation. The principal assumptions used in the valuation are listed, and the corresponding effects on the Defined Benefit Obligation are presented.

Scenario	Base DBO (Birr' 000)	DBO on Changed Assumptions (Birr' 000)	% Change
Discount rate + 1%	192,048	175,106	-8.80%
Discount rate - 1%	192,048	210,793	9.80%
Salary increase + 1%	192,048	211,376	10.10%
Salary increase - 1%	192,048	174,340	-9.20%

Reconciliation of Defined Benefit Obligation

The table below outlines the development of the Defined Benefit Obligation that the Bank will reflect in its financial statements for the Year Ended 30 June 2024.

	30 June 2024 Birr'000	30 June 2023 Birr'000
Defined Benefit Obligation at the beginning of the period	119,001	65,219
Current Service Cost (excluding interest)	15,890	9,560
Interest Cost	27,559	17,088
Benefits Paid	(4,790)	(8,917)
Actuarial (Gains)/Losses on economic assumptions	19,316	8,870
Actuarial (Gains)/Losses on experience	15,072	27,181
Defined Benefit Obligation at the End of the Period	192,048	119,001



ABAY BANK SHARE COMPANY
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Summary of Key Financial Assumptions

Financial assumptions are those that affect the amount of the benefit payments (e.g. increases in salary and the discount rate) while demographic assumptions are those that affect the expected timing of the benefit payments (e.g. resignation or mortality rates).

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

Financial Assumptions

Discount Rate

Inflation Rate

Salary increase Rate

Net Pre-Retirement Rate

30 June 2024 Birr'000	30 June 2023 Birr'000
18.7%	20.8%
14.3%	15.1%
14.3%	15.1%
3.85%	4.95%

Share capital

Authorized:

Ordinary shares of Birr 1000 each

Issued and fully paid:

Ordinary shares of Birr 1000 each

Share premium

30 June 2024 Birr'000	30 June 2023 Birr'000
12,000,000	12,000,000
6,015,344	4,733,303
39,108	35,388
6,054,452	4,768,691

The Bank shares are owned by individuals and companies.

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.

Weighted average number of shares is computed based on the number of days to year end the shares were held by the Bank from the payment date for the paid up capital.

Profit after tax

Weighted average number of ordinary shares in issue

Basic earnings per share (Birr)

30 June 2024 Birr'000	30 June 2023 Birr'000
1,551,662	1,551,471
5,353	4,309
289.88	360.03

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 (30 June 2024:nil), hence the basic and diluted earnings per share have the same value.



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3 Retained earnings

At the beginning of the year
 Dividend paid
 Carried forward
 Profit/ (Loss) for the year
 Board remuneration fee
 Legal reserve
 Regulatory risk reserve
 Deferred tax liabilities
 Prior period adjustment
At the end of the year

30 June 2024 Birr'000	30 June 2023 Birr'000
1,030,944	658,748
(1,041,760)	(658,748)
1,502,060	1,551,471
-	(1,350)
(365,898)	(387,868)
(58,040)	(118,207)
-	1,459
(14,964)	(14,561)
1,052,342	1,030,944

3 Legal reserve

At the beginning of the year
 Legal reserve transferred during the period
At the end of the year

30 June 2024 Birr'000	30 June 2023 Birr'000
1,308,302	920,434
365,898	387,868
1,674,200	1,308,302

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.

36 Regulatory risk reserve

On loans

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

On other assets

Other Assets impairment under IFRS 9
 NBE directive requirement

Suspended interest

Suspended interest Computed as per NBE directive requirement

Regulatory risk reserve ending balance

30 June 2024 Birr'000	30 June 2023 Birr'000
(555,906)	(577,292)
560,023	584,799
4,117	7,507
(22,056)	(17,192)
194,465	128,171
172,408	110,979
124,705	124,705
124,705	124,705
301,230	243,190



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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 reserve.

Cash generated from operating activities

	Notes	30 June 2024 Birr'000	30 June 2023 Birr'000
Profit before tax		1,945,310	2,124,416
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	24	170,037	114,086
Amortization of intangible assets	25	7,763	7,450
Gain/(Loss) on disposal of property, plant and equipment	37	(13,892)	1,007
Impairment on loans and advances	12	(21,337)	207,867
Interest expense on lease liability	23	15,525	10,241
Adjustment for reclassification of loan write off to loan provision		-	(18,518)
Impairment on other receivable, NBE bill and Treasury Bill	13	107,534	11,368
Employee benefit obligations	31	(34,388)	(36,051)
Prior period adjustment		(3,082)	-
Proceed from sale of non current asset held for sale	27	-	6,407
Changes in working capital:			
-Decrease/ (Increase) in loans and advances	18	(4,613,415)	(10,069,130)
-Decrease/ (Increase) in other financial asset	20 (b)	(726,654)	(432,876)
-Decrease/ (Increase) in Other Non Financial assets	21	(688,906)	236,128
-Decrease/ (Increase) in Right of use assets	22	(265,035)	(288,056)
-Increase/ (Decrease) in deposits from customers	28	10,856,545	9,372,165
-Increase/ (Decrease) in Other Financial liabilities	29	(1,335,114)	2,792,847
-Increase/ (Decrease) in Defined benefits obligation	31	73,047	53,782
-Increase/ (Decrease) in Non financial liabilities	30	2,759	9,103
		5,476,698	4,102,236

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

	30 June 2024 Birr'000	30 June 2023 Birr'000
Cost of Property, plant and equipments sold	28,496	4,679
Accumulated depreciation of property, plant and equipment sold	(18,893)	(3,196)
Gain/(loss) on sale of property, plant and equipment	13,892	(1,007)
Proceed of property, plant and equipment sold	23,495	476



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Related party transactions

A number of transactions were entered into with related parties in the normal course of business. Below is a summary of the Bank's related party transactions for the years ended 30 June 2024 and 30 June 2023:

a) Loans and Advances to Related Parties

	30 June 2024 Birr'000	30 June 2023 Birr'000
Outstanding Loans to Board of Directors	47,149	8,629
Outstanding Loans to Executive Management	183,273	128,011
	230,422	136,641

b) Key management compensation

Key management includes members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management during the year is detailed below. There is no sales or purchase of goods and services occurred between the Bank and key management personnel as at 30 June 2024.

	30 June 2024 Birr'000	30 June 2023 Birr'000
Compensation of Key Management Personnel (Salaries, Allowances, Bonuses)	31,222	23,249
Directors' Share of Annual Profit	1,350	1,350
Directors' Annual Sitting Allowance	1,080	1,080
Total Compensation	33,652	25,679

39 Contingent liabilities

i) 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 mount of contingent liabilities for the account of customers:

	30 June 2024 Birr'000	30 June 2023 Birr'000
Guarantees issued and outstanding	805,561	2,077,901
Letters of credit net-off margin held	2,416,310	1,780,128
	3,221,871	3,858,029



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ii) Loan and advance commitments

The bank has outstanding loan and advance commitments, not provided for in these financial statements, which are summarized as follows:

Unutilized overdraft facility

	30 June 2024 Birr'000	30 June 2023 Birr'000
Overdraft Facility Limit	6,741,778	6,011,151
Utilized Overdraft Amount	5,344,046	5,304,426
Unutilized Overdraft Amount	1,501,254	826,771
Overdraft Loan Impairment	(40,406)	(34,040)

Unutilized revolving facility

	30 June 2024 Birr'000	30 June 2023 Birr'000
Revolving Facility Limit	8,144,508	8,071,684
Utilized Revolving Facility Amount	7,494,702	6,965,356
Unutilized Revolving Facility Amount	649,806	1,106,328
Revolving Facility Loan Impairment	(151,169)	(139,776)



i) Events after reporting period

Subsequent Events

On July 29, 2024, the National Bank of Ethiopia announced a significant revision to the country's foreign exchange (FX) system. This reform introduces a competitive, market-based determination of the exchange rate, addressing a long-standing distortion within the Ethiopian economy. The implementation of this reform is guided by the new Foreign Exchange Directive (FXD/01/2024).

Potential Impact

While the reform does not directly impact the financial statements for the fiscal year ending June 30, 2024, it has the potential to affect the Company's financial performance in future periods. The shift to market-based exchange rates could introduce increased volatility in foreign exchange rates, impacting the value of foreign currency assets and liabilities, as well as the profitability of foreign currency transactions.

Contingencies

The Company is closely monitoring the implementation of the foreign exchange reform and assessing its potential impact on its operations. There are no material contingencies or uncertainties related to this event at this time.

