

**BANK OF ABYSSINIA SHARE COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

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**1. ACCOUNTING POLICIES**

The principal accounting policies adopted by the Bank are stated below:-

a) Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided as follows:

i) Premises - 5% on a straight-line basis.

ii) Computers and other assets according to a pooling system at the following rates applied to the book values of each group of assets determined by adding additions and deducting disposal proceeds of the year to their respective opening book values.

	<u>%</u>
Computers	25
Other assets:	20
- Vehicles	
- Furniture and fittings	
- Equipment	

b) Provision for loans and advances are made on the basis of Directive No. SBB/32/2002 of the National Bank of Ethiopia.

c) Accrued interest income on non-performing loans is calculated but rendered with non-accrual status (kept in memorandum account) and accounted for in the financial statements only on collection.

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**1. ACCOUNTING POLICIES (Continued)**

- d) Transactions in foreign currencies are converted into Birr at the exchange rates ruling on the dates of the respective transactions. Foreign currency cash and bank balances at the end of each day are translated at the buying exchange rates ruling on that date. Any gains or losses are accounted for in the profit and loss account.
- e) Deferred costs (intangible fixed assets) are amortized over five years in line with Directive No.SBB/32/2002 of the National Bank of Ethiopia.
- f) Bonus and compensation for services of the bank's employees are accounted for when paid.
- g) Customers' and Bank's liabilities on letters of credit are stated at the full values of the commitments without regard to the margins already paid.
- h) Interest income on advances on import bills is recognised on collection.

**2. DEPOSITS AND PREPAYMENTS**

	<u>2006</u>	<u>2005</u>
Prepaid rent	5,115,440	3,948,934
Deposit for rent	<u>2,035,952</u>	<u>2,035,952</u>
	7,151,392	5,984,886
Less: Provision for other receivables	<u>(2,000,000)</u>	<u>(2,000,000)</u>
	<u>5,151,392</u>	<u>3,984,886</u>

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**3. LOANS AND ADVANCES TO CUSTOMERS**

	<u>2006</u>	<u>2005</u>
Domestic trade and services	521,639,184	299,483,873
Import	330,811,203	270,272,755
Construction	270,315,596	138,762,525
Transport	249,006,550	89,707,362
Industry	204,227,429	97,055,309
Export	168,913,531	117,047,533
Advance against import bills	91,118,279	50,672,200
Merchandise	72,409,991	74,423,453
Loans in legal department	44,021,630	80,550,151
Personal	5,887,856	4,408,199
Agriculture	2,306,241	2,068,130
Advance against export bills	<u>1,856,558</u>	<u>10,009,368</u>
	1,962,514,048	1,234,460,858
Less: Provision for doubtful loans and advances	<u>(61,047,503)</u>	<u>(61,492,273)</u>
	<u>1,901,466,545</u>	<u>1,172,968,585</u>

**4. OTHER ASSETS**

Acquired properties	2,698,134	2,987,895
Stationery and other stocks	1,862,663	1,045,675
Accounts receivable - medical	382,543	303,952
Stock of fixed asset items	209,069	376,526
Receivable - retirement of equity investments	-	5,000,000
Costs for potential branches	-	976,860
Miscellaneous accounts receivable	<u>11,571,946</u>	<u>6,355,858</u>
	16,724,355	17,046,766
Less: Provision for other receivables	<u>(7,368,283)</u>	<u>(3,209,003)</u>
	<u>9,356,072</u>	<u>13,837,763</u>

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**5. INTANGIBLE FIXED ASSETS**

These are deferred establishment costs comprising:

	Balance <u>01.07.05</u>	<u>Additions</u>	Balance <u>30.06.06</u>
<b>Costs</b>			
Acquisition of use right of property (BOA's prospective branches)	1,830,680	-	1,830,680
Leasehold land	<u>566,920</u>	<u>-</u>	<u>566,920</u>
	<u>2,397,600</u>	<u>-</u>	<u>2,397,600</u>
<b>Amortization</b>			
Acquisition of use right of property	1,337,743	164,312	1,502,055
Leasehold land	<u>39,109</u>	<u>9,959</u>	<u>49,068</u>
	<u>1,376,852</u>	<u>174,271</u>	<u>1,551,123</u>
<b>Net Book Value</b>	<u>1,020,748</u>		<u>846,477</u>

**6. TANGIBLE FIXED ASSETS**

	Balance <u>01.07.05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>30.06.06</u>
<b>Cost</b>				
Buildings	16,724,688	1,576,031	533,298	17,767,421
Motor vehicles	9,770,397	4,054,359	42,105	13,782,651
Office and other equipment	3,202,998	1,032,644	-	4,235,642
Furniture and fittings	9,215,722	1,517,557	-	10,733,279
Computer accessories	4,839,833	1,142,093	-	5,981,926
Construction in progress	<u>1,152,843</u>	<u>1,910,378</u>	<u>-</u>	<u>3,063,221</u>
	<u>44,906,481</u>	<u>11,233,062</u>	<u>575,403</u>	<u>55,564,140</u>
<b>Depreciation</b>				
Buildings	264,564	888,371	79,995	1,072,940
Motor vehicles	4,859,766	1,792,998	42,105	6,610,659
Office and other equipment	1,417,252	563,678	-	1,980,930
Furniture and fittings	4,949,602	1,156,735	-	6,106,337
Computer accessories	<u>2,627,352</u>	<u>838,643</u>	<u>-</u>	<u>3,465,995</u>
	<u>14,118,536</u>	<u>5,240,425</u>	<u>122,100</u>	<u>19,236,861</u>
<b>Net Book Value</b>	<u>30,787,945</u>			<u>36,327,279</u>

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**7. DEPOSITS**

	<u>Demand</u>	<u>Savings</u>	<u>Fixed time</u>	<u>2006 Total</u>	<u>2005 Total</u>
Private sector	327,862,964	1,445,829,380	79,331,512	1,853,023,856	1,477,400,668
Co-operatives & associations	30,705,274	97,016,711	2,497,473	130,219,458	103,400,784
Domestic banks	23,028,958	325,622	143,251,435	166,606,015	32,068,166
NR-transferable Birr accounts	10,223,876	-	-	10,223,876	6,870,663
Public agencies & enterprises	2,250,544	5,128,082	276,893	7,655,519	3,944,443
NR-non transferable accounts	2,144,114	-	-	2,144,114	2,198,921
NR-foreign currency accounts	3,839,055	-	-	3,839,055	889,929
Residents	<u>3,173,588</u>	<u>-</u>	<u>-</u>	<u>3,173,588</u>	<u>853,506</u>
At 30.06.06	<u>403,228,373</u>	<u>1,548,299,795</u>	<u>225,357,313</u>	<u>2,176,885,481</u>	<u>1,627,627,080</u>
At 30.06.05	<u>333,275,052</u>	<u>1,183,255,245</u>	<u>111,096,783</u>	<u>1,627,627,080</u>	

**8. OTHER LIABILITIES**

	<u>2006</u>	<u>2005</u>
Accounts payable and special cheque clearance	77,446,214	51,987,071
Cashiers' payment orders	51,109,430	35,337,761
Blocked account and blocking inwards	12,816,459	6,846,332
MTs and TTs payable, local and foreign	5,370,467	3,465,651
Board of Directors' fees	3,331,714	3,179,340
Dividends payable	3,048,904	1,309,736
Accrued interest on fixed deposits	4,246,829	5,587,036
Old draft and outstanding payments – local/foreign	3,682,803	2,850,682
Exchange and auction payable	3,619,364	3,218,632
Annual leave pay	2,677,888	1,021,759
Stamp duty charges	833,350	720,532
Payroll tax payable	262,487	100,244
Sales tax on interest paid	220,957	23,208
Tax on dividends	1,468,240	673,752
Deposit for guarantee issued	94,199	348,934
Safe deposit key value	84,300	79,200
Audit fee	80,000	80,000
Miscellaneous accounts payable	<u>2,472,856</u>	<u>1,646,445</u>
	<u>172,866,461</u>	<u>118,476,315</u>

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**9. PROVISION FOR TAX**

a) The movements in this account are:

	<u>2006</u>	<u>2005</u>
Beginning balance	20,984,321	<u>16,193,307</u>
<u>Provision for the year</u>		
Profit before tax	122,921,543	82,040,574
Less: Release of provisions already taxed	(5,780,243)	(11,146,768)
Income from Treasury Bills	(56,715)	(1,036,879)
Add: Provision for other receivables	4,159,280	-
Prior period adjustments	1,682,302	-
Donations	36,000	64,400
Entertainment	<u>56,503</u>	<u>28,444</u>
Taxable profit for the year	<u>123,018,670</u>	<u>69,949,771</u>
At 30%	36,905,600	20,984,931
Settlement of profit tax during the year	<u>(20,984,321)</u>	<u>(16,193,307)</u>
Less: Withholding tax paid	36,905,600 <u>(1,017)</u>	20,984,931 <u>(610)</u>
At 30 June 2006	<u>36,904,583</u>	<u>20,984,321</u>

b) Tax assessments have not been received from the Federal Inland Revenue Authority. However, as per the recent “exit strategy” by the Federal Inland Revenue Authority, previously paid taxes in respect of the years to 2003 are to be taken as final.

During the current fiscal year, release of certain specific existing provisions are reflected as income but excluded from tax computation in so far as tax has already been paid on the part of the specific provisions to 30 June 2002 when provisions were being disallowed for tax purposes.

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**10. SHARE CAPITAL**

<u>Description</u>	<u>Number of shares</u>	<u>Par Value</u>	<u>2006 Amount</u>	<u>2005 Amount</u>
Authorized	<u>21,200,000</u>	25	<u>530,000,000</u>	<u>530,000,000</u>
Subscribed	<u>10,600,000</u>	25	<u>265,000,000</u>	<u>265,000,000</u>
Fully paid-up			<u>264,713,109</u>	<u>165,726,575</u>

**11. LEGAL RESERVE**

	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	36,203,274	20,939,363
Transfer for the year	<u>21,819,987</u>	<u>15,263,911</u>
	<u>58,023,261</u>	<u>36,203,274</u>

**12. SPECIAL RESERVE**

Balance at the beginning of the year	5,506,436	5,506,436
Transfer for the year	<u>7,920,809</u>	<u>-</u>
	<u>13,427,245</u>	<u>5,506,436</u>

**13. PROVISION FOR DOUBTFUL LOANS AND ADVANCES**

The movements in this account were as follows:

	<u>2006</u>	<u>2005</u>
Beginning balance	61,492,273	<u>73,023,911</u>
Add: Additional provision	28,728,230	-
Less: Reduction in provision:		
Provision made for the years to 30 June 2002 already taxed	5,780,243	-
Provision made since 1 July 2002 – tax allowable	<u>23,392,757</u>	<u>-</u>
	(29,173,000)	<u>(11,531,638)</u>
At 30 June 2006	<u>61,047,503</u>	<u>61,492,273</u>

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While certain loans and advances continued to require additional provision during the current year, provisions for certain other doubtful loans and advances previously set aside have now been considered no longer required as a result of collections or improvements in the status of these loans and advances. As the provisions being reduced are in excess of those being set aside, the net amount of Br. 444,770 shown above as net reduction in the provision has been reflected as income in the profit and loss account for the year.

**14. INTEREST INCOME**

	<u>2006</u>	<u>2005</u>
Interest on : term loans	75,636,641	36,042,524
: overdrafts	75,483,431	59,315,714
: import and export facilities	4,252,789	3,401,781
: old loans under court cases	3,105,724	3,381,154
: treasury bills	<u>56,715</u>	<u>1,036,879</u>
	158,535,300	103,178,052
 Deposits with foreign banks	 <u>6,740,631</u>	 <u>1,499,094</u>
	<u>165,275,931</u>	<u>104,677,146</u>

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**15. COMMISSION EARNED**

	<u>2006</u>	<u>2005</u>
L/C and other import / export facilities	3,443,781	2,184,564
MTs, TTs, DDs – local and foreign	2,043,415	1,290,711
Letters of guarantee	1,224,841	336,722
Cashiers' payment order	248,279	161,313
Travellers' cheques and others	202,328	105,413
Uncleared effects	<u>149,075</u>	<u>86,612</u>
	<u>7,311,719</u>	<u>4,165,335</u>

**16. OTHER INCOME**

Opening charges on L/C	3,456,053	2,491,751
Rent	2,072,054	317,324
Telephone, telegram, telex and fax	1,794,033	1,271,194
Sundries	<u>629,335</u>	<u>839,100</u>

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	<u>7,951,475</u>	<u>4,919,369</u>
<b>17. INTEREST EXPENSE</b>		
Savings deposits	36,311,011	27,994,692
Fixed time deposits	<u>4,460,333</u>	<u>4,914,058</u>
	<u>40,771,344</u>	<u>32,908,750</u>
<b>18. GENERAL AND ADMINISTRATION EXPENSES</b>		
	<u>2006</u>	<u>2005</u>
Office rent	7,129,123	6,013,416
Depreciation	5,240,425	3,689,353
Postage, telephone, telegram, telex/fax	1,578,772	1,281,548
Stationery and printing	1,504,771	1,037,523
Transportation	1,113,670	685,828
Advertisements	1,035,318	787,278
Car and representation allowance	856,873	377,358
Repair and maintenance	801,968	523,260
Fuel and lubricants	457,296	339,171
Insurance	427,773	310,431
Per diems and travel	302,330	223,396
Correspondent charges	271,701	227,549
SWIFT services	228,589	234,462
Utilities	214,222	206,056
Consultancy	196,763	-
Amortization,	174,271	376,095
Donations and contributions	181,000	136,400
Loss on disposal of acquired assets	122,220	291,793
Annual reception	118,424	265,092
Bank charges	112,979	265,011
Board office expenses	54,000	54,000
Membership and subscriptions	64,673	60,295
Entertainment	56,503	28,444
Inauguration of branches	45,179	53,121
Legal	20,250	24,546
Sundries	<u>544,108</u>	<u>361,157</u>
	<u>22,853,201</u>	<u>17,852,583</u>
<b>19. BOARD OF DIRECTORS' FEES</b>		
Accrued 5% on net profit after tax	3,315,879	3,163,505
Monthly fixed fee and transport	<u>232,900</u>	<u>228,000</u>

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3,548,779                      3,391,505

**20 EARNINGS PER SHARE**

The rate of earnings per share is the return per share computed on the basis of the net profit after tax divided by the weighted average number of shares held during the year.

**21. CASH FLOW FROM OPERATING ACTIVITIES**

	<u>2006</u>	<u>2005</u>
Net profit before tax	122,921,543	82,040,574
Depreciation and amortisation	5,414,696	4,065,448
Prior year items	1,264,003	-
Provision for other receivables	4,159,280	2,505,971
Loss on disposal of fixed assets	228,303	287,374
Gain on foreign currency transactions and translations	(25,790,857)	(16,631,389)
Discount on treasury bills	(56,715)	(1,036,879)
Release of provision no longer needed	<u>(444,770)</u>	<u>(11,531,638)</u>
Operating profit before changes in operating assets and liabilities	107,695,483	59,699,461
(Increase) in loans and advances to customers	(728,053,190)	(272,063,674)
(Increase) in items in the course of collection	(23,632,052)	(38,023,914)
Increase in deposits by customers	549,258,401	352,432,679
(Increase) in other deposits and prepayments	(1,166,506)	(525,588)
Decrease /(Increase) in other assets	322,411	(10,432,497)
Increase in other liabilities	52,650,978	34,277,786
Increase in margins on L/Cs	<u>8,558,279</u>	<u>19,804,267</u>
Net cash (outflow) / inflow from operating activities before profit tax	(34,366,196)	145,168,520
Profit tax paid	<u>(20,985,338)</u>	<u>(16,193,917)</u>
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>	<u>(55,351,534)</u>	<u>128,974,603</u>

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**22. MEMORANDUM ACCOUNTS**

	<u>2006</u>	<u>2005</u>
Letters of guarantee	40,735,062	54,765,599
Unearned interest income	24,575,584	45,617,706
Acceptances and endorsements	19,802,531	16,793,361
OBC city branch and other banks	6,007,025	4,696,283

**23. COMPARATIVE FIGURES**

In order to facilitate comparison, certain of the 30 June 2005 figures have been reclassified in these financial statements.