ANNUAL REPORT 2015

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Zemen BANK

Financial Solutions from A to Z
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VISION

The vision of Zemen Bank is to bring a new dynamism to the financial sector and the banking business in Ethiopia.

CONTENTS

Zemen Bank is:
Proudly Ethiopian, professional, dynamic, world-class and totally customer focused.

Our Values include:
Upholding the highest standards, being progressive and innovative.

Our Personality is:
To be challenging, spirited, provocative, ambitious and successful and to be friendly and courteous in all our relationships.

To our Customers:
We offer a professional partnership, trust and outstanding levels of service.

Zemen Bank stands for innovation and excellence in everything we do.

BOARD OF DIRECTORS

Amare Habe
Board Chairman

Million Habte
Board Depuity Chairman

Emawayish Addisu
Board Director

Bezuwork Mamo
Board Director

Kbreab Afework
Board Director

Neway Berhanu
Board Director

Kollele Tessema
Board Director

Mikra Ayalew
Board Director

SENIOR MANAGEMENT

Tsegay Tetemke
President / CEO

Helaway Tadesse
Senior Vice President

Sebhat Belayneh
Vice President Finance &
International Banking

Adamseged Belay
Legal Counsellor

Elias Kinfegebriel
Manager HR &
Support Services

Adugna Mekonnen
Manager New
Business Development,
Planning & Research

Asrat Tadesse
Manager-CRM
Department

Ojeuna Mekconenn
Manager- Marketing Department

Shimelis Legesse
Core Banking Application
and Administration

Gadissa Mamo
Manager Finance

Solomon Mamo
Manager Credit Appraisal

Firehiwot Birke
Manager
Main Branch

Meseret Wondim
Manager
Internal Audit

Nebyou Tekola
Manager Domestic
Banking Operations

Tesfaye Boru
Manager Risk &
Portfolio Management

Tesfaye Salilew
Manager Infastructure
& Channel Managment

CHAIRMAN'S STATEMENT

Year ended 30 June 2015

It is with great pleasure that I present to you the 2014/15 Annual Report on behalf of Zemen Bank's newly elected Board of Directors that has commenced its term this past fiscal year. The new Board has started to engage itself on a wide range of oversight responsibilities and looks forward to working with our many stakeholders on key strategy and policy issues facing the Bank over the coming years.

With respect to the just concluded 2014/15 fiscal year, as most readers will be aware, the macroeconomic setting in Ethiopia presented a mix of opportunities and challenges. The demand for banking services—especially loans—remained high as the strong expansion seen across multiple economic sectors resulted in 10.2 percent real GDP growth for the economy and an even higher growth rate of 19 percent for the manufacturing sub-sector. At the same time, on the foreign trade front, Ethiopia's exports fell by 8 percent while imports rose by 20 percent, thus contributing to tighter foreign exchange conditions at banks for most of the year.

> "...the macroeconomic setting in Ethiopia presented a mix of opportunities and challenges."

In the context of the above, I am pleased to report that Zemen Bank managed to record moderate growth in most areas of activity. Revenues were raised 10 percent from last year and profit-after-tax has risen by 20 percent. These results were helped by a 26 percent increase in deposits and a much larger increase in our lending operations, which were up 60 percent for the year. In contrast to the strong record seen in our credit intermediation activities, our foreign exchange intermediation activities declined last year as foreign exchange inflows declined from a year ago, reflecting the above-noted conditions in the broader economy. In other key financial metrics, the Bank registered good progress in several areas,

with net new NPL creations being held to zero for the second year in a row and the Bank maintaining comfortable capital and liquidity ratios throughout the course of the year.

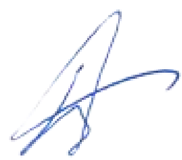
Beyond financial figures, I am also pleased to report that FY 2014/15 has been a year when Zemen Bank continued to broaden its outreach to customers through multiple service delivery channels. To continue our expansion to key regional cities, Zemen Bank has opened banking centers in Mekelle within the past year and Bahr Dar and Gondar recently, in addition to our existing facilities in Hawassa, Adama, and Dire Dawa. We are expanding our alternative service delivery channels as well through more ATM deployments, an improved Internet Banking system, a new mobile banking offering (using both SMS and IVR channels) and continued growth in our highly valued and corporate-focused services such as Doorstep Banking.

For the year ahead, I see two priority areas for the new Board, centered around our corporate governance systems and the preparation of a new Strategy Plan:

- **Corporate Governance:** In line with new regulatory standards in this area, Zemen Bank will work diligently to put in place strong standards of corporate governance at both the Board and Management level. In this context, and as per NBE Directives and Basel principles, the Board will focus squarely on its key areas of responsibility—namely setting strategy and policies for the effective governance of the bank's operations. Accordingly, we will address the planned work on our Strategy Plan (see below) and also strengthen our oversight functions in critical areas such as management performance, risk, loan review, human resources, and IT. Given a major capital expense in the form of a new Headquarters Building, we will also closely follow developments in that area.

- **New Strategy Plan:** FY 2015-16 will be a year of transition as Ethiopia embarks on a Second Growth and Transformation Plan that sets new directions and priorities for the banking industry as well as the broader economy. Accordingly, we will take the opportunity of the Second GTP to take a long-term view of our own mission, strategy, and operations in the context of the rapidly changing business, economic, and regulatory environment. To this end, a new five-year plan will be prepared this year through a consultative process that will include inputs from key stakeholders—customers, staff, shareholders and the wider public. Beyond setting the broad direction for the Bank's work up to 2020, the Strategy Plan will revisit and refine many aspects of the Bank's product offerings, business mix, customer base, and operational structures and systems. However we may modify or re-inforce our existing strategy, I am confident we will not deviate from several of the Bank's core founding values—to deliver to our clients a truly distinctive and industry-leading customer service experience and to ensure for our shareholders satisfactory and sustainable returns.

To conclude, I would like to extend my sincere thanks to our valued customers, management, staff, and shareholders for their solid commitment and dedication to Zemen Bank. I invite our key stakeholders to engage with us in the coming months as we set the Bank's course for the coming five years. Thank you and best wishes to us all for the coming year.



Chairman of the Board
Zemen Bank

 www.zemenbank.com

PRESTIGE BANKING

Prestige Banking

Prestige Banking Customers are allocated a Personal Banking Representative and earn 5.60% on their savings. To qualify, the minimum monthly balance is Birr 100,000.

44% AVERAGE ANNUAL EARNINGS PER SHARE OVER PAST 5 YEARS

42M BIRR WITHDRAWN FROM ATMS EVERY MONTH

7500 INTERNET BANKING USERS EVERY MONTH

$236M IN FOREX INFLOWS

20% PROFIT INCREASE

1,150 EXPORT IMPORT TRANSACTIONS PER MONTH

2.3B LOANS TO CUSTOMERS

3.8B DEPOSITS MOBILIZED

26% DEPOSIT INCREASE FROM PREVIOUS YEAR

1.4 M GOVERNMENT BILLS PURCHASED

47M TAXES PAID

127M BIRR FROM VISA CARD AND MASTERCARD USER

278,345 CUSTOMER TRANSACTIONS DURING THE YEAR

13,000 EMPLOYEES USING PAYROLL SERVICES

Z-CLUB BANKING

SHAREHOLDERS' MEETING (October 25, 2014)

Z-Club

Z-Club offers the highest level of banking services available. A specialist Personal Banker is assigned to you to help with all your financial needs. To qualify, you should maintain a minimum monthly balance of Birr 500,000. The Z-Club account brings with it the most preferential interest rates (6.0%), free cash delivery/collection services (limit of two per month), and the privilege of using our dedicated mezzanine floor, including use of our conference rooms with free internet services, for your business needs.

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DIRECTORS' REPORT

Fiscal Year 2014/15

Zemen Bank's Board of Directors is pleased to present the 2014/15 Annual Report to its esteemed shareholders, clients, and partners. In what follows, we present an overview of our overall results during the just completed fiscal year and outline briefly our plans for the period ahead.

Financial Performance

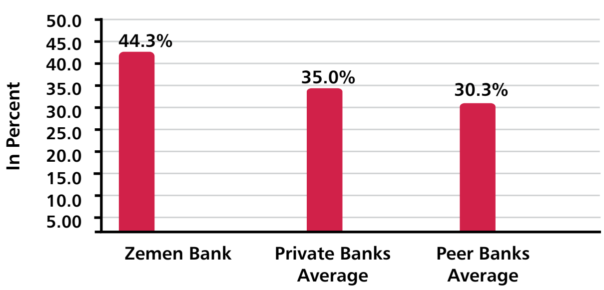
Zemen Bank completed the 2014/15 year with continued growth in most areas of activity, and with revenues and profits reaching their highest levels since the Bank's founding seven years ago. Aided by strong growth in the Bank's lending operations, pre-tax profits rose to just above Birr 200 million reflecting gross revenue of Birr 502 million that was offset by Birr 301 million in interest and other expenses. Profit-after-tax rose from Birr 128 million to Birr 153 million, equivalent to a growth rate of 20 percent.

The Bank's profit performance continues to show a satisfactory rate of return when measured against our capital and our total assets. The Bank's net profit after tax result of Birr 153.3 million translates into a return on average equity of 25.4 percent as well as a return on average assets of 3.5 percent. Expressed relative to the paid-up capital of our shareholders, which averaged Birr 479 million during the year, the net income outturn is equivalent to an earnings per share of 32 percent. This earnings per share result is unchanged from Zemen Bank's prior year performance and is slightly above the average FY 2014/15 figures seen for peer banks (27 percent) and for all private banks (31 percent). Viewed over a longer time frame, Zemen Bank's earnings per share has averaged 44 percent per year during the past five years, once again above the average levels recorded in the banking industry.

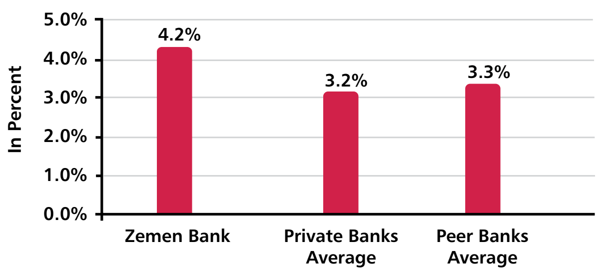
Zemen Bank's results continue to be supported by a distinctive business model that is focused on corporate clients and technologically-driven banking services delivered via multiple channels—including both a limited branch network as well as alternative service delivery methods such as ATMs, Internet Banking, Mobile Banking, and POS terminals. This business model has allowed for a lean operating set-up as well as a favorable structure in the Bank's revenue, expenditure, and balance sheet, as described below:

Revenues: The Bank collected gross revenue of Birr 502 million during the year, a 10 percent increase from the previous fiscal year's outturn of Birr 455 million. The two largest revenue sources for the bank are interest income on our loans (Birr 263 million or 52 percent of total revenue) and fees derived mainly

Earning Per Share: Five-Year Average GRAPH 1



Return on Assets: Five-Year Average GRAPH 2

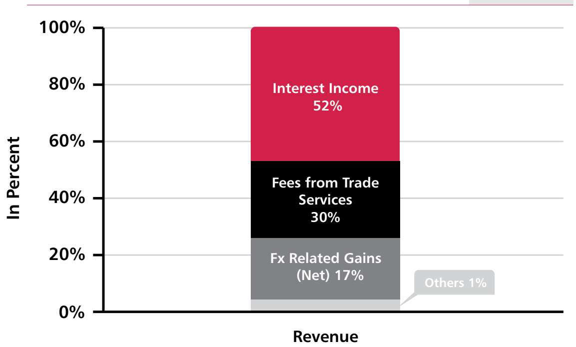


from trade operations (Birr 141 million or 28 percent of total revenue). A third revenue source, gains from foreign exchange related operations, provided Birr 83 million or about one-sixth of total revenues. In a very positive development, the Bank's revenue structure is now more diversified than a few years and much less susceptible to a slowdown in any one particular line of activity, such as credit or international banking.

Expenditure: The Bank's operational expenses were dominated by spending on interest payments (Birr 137 million), salaries and benefits (Birr 74 million), depreciation and amortization (Birr 25 million), and rent (Birr 24 million). Following two years of relatively high loan provision allowances, the Bank has not had to set aside any provision expenses this year, reflecting a second year of zero net new NPL creations. The Bank's cost-to-income ratio (which is a key measure of efficiency used in the banking sector and reflects operating costs relative to operating income) rose somewhat from 26 percent to 33 percent, but still remains at the very low end of industry norms, as does the cost-to-assets ratio of just 3.7 percent.

Balance Sheet: The Bank's balance sheet expanded by 24 percent during the year, rising from Birr 3.9 to Birr 4.9 billion. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits of Birr 3.8 billion and shareholders' paid up capital, which has now reached Birr 500 million. The counterpart to these funds collected from customers and shareholders are four main assets: loans and advances after provisions (Birr 2.1 billion); NBE Bills (1.4 billion); deposits at local banks and NBE (Birr 0.5 billion); and foreign exchange deposits at foreign banks (Birr 0.4 billion). The Bank continues to have one of the highest capital ratios in the industry, with a capital adequacy ratio of 32 percent of risk-weighted assets, or four times the regulatory requirement. Moreover, in line with our prudent liquidity management practices, the Bank's liquidity ratio (liquid assets to deposit) was well above the regulatory requirement of 15 percent throughout the year and stood at 30 percent at end-June 2015.

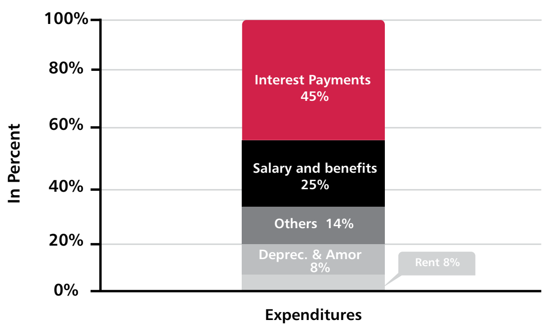
Revenue Structure GRAPH 3



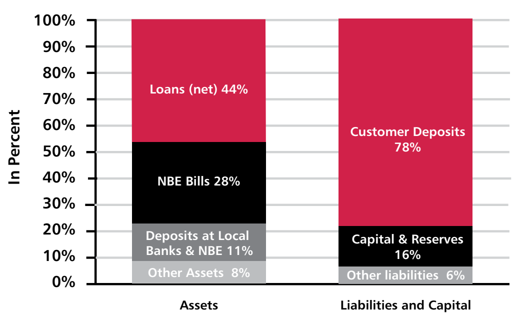
Dividend Payout Proposal

Based on the financial results of the fiscal year, Birr 114.9 million has been transferred to retained earnings reflecting several notable deductions to the Bank's pre-tax profits. First, reflecting a 23.5 percent effective tax rate (due to several tax-exempt earnings such as interest on NBE Bills), a tax deduction of Birr 47.2 million reduces the net profit after tax to Birr 154 million. This figure, in turn, is subject to two deductions on account of Legal Reserves (Birr 38.4 million) and Directors allowance (Birr 0.4 million). The remaining figure amounts to Birr 114.9 million and is the sum transferred to retained earnings in

Expenditure Structure GRAPH 4



Composition of Assets and Liabilities GRAPH 5



Debit Card

With the launch of our multi-channel banking services, Zemen Debit Cards are now available for all account holders at Zemen Bank. The additional convenience of having a Zemen Debit Card allows customers to access their account much easily through the Call Center, branch, online or via ATM outlets.

 www.zemenbank.com

FY 2014/15. The Board of Directors proposes that the full amount of retained earnings be transferred to shareholders in the form of dividend payments. Based on the year-average paid-up capital of the Bank, the proposed dividend to shareholders amounts to near 24 percent per share.

Banking Operations

Banking operations in FY 2014/15 registered a strong performance with respect to credit intermediation activities but a lower-than-expected outturn on the foreign exchange front.

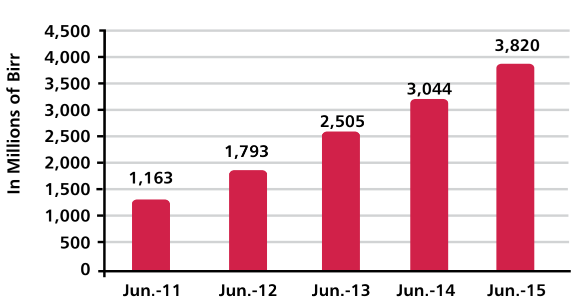
Deposits:

Zemen Bank boosted its deposit base by 26 percent, with total deposits mobilized reaching Birr 3.8 billion at end-June 2015 from Birr 3.0 billion a year earlier. The registered growth rate of 26 percent is slightly below the 28 percent overall deposit growth rate seen at private banks, indicating a small market share decline from 3.29 to 3.21 percent of private bank deposits. Zemen Bank continued to offer competitive interest rates on its deposits and remains the only bank that pays interest to its savers on the basis of the average daily account balance during a given month rather than using the lowest account balance of that month. Corporate deposits continue to make up the majority (nearly two-thirds) of the deposit base, although retail deposit accounts have shown strong double-digit gains in recent years. The composition of deposits is broadly in line with the Bank's strategic objectives: savings deposits make-up the largest share (60 percent), followed by checking deposits (27 percent) and time deposits (13 percent).

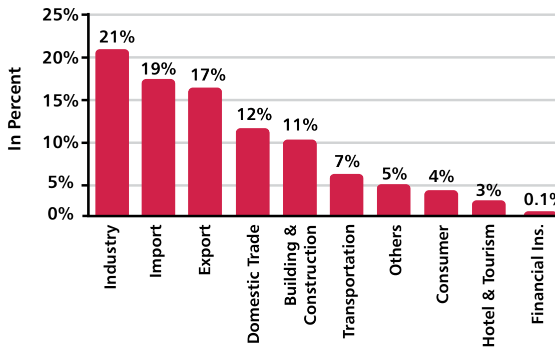
Credit:

The Bank's lending book showed very strong growth of near 60 percent this past fiscal year, with gross loans rising from Birr 1,430 million to Birr 2,283 million. A newly structured system of credit operations—including separate departments for customer relationship management and for credit appraisal—has contributed to this above-target performance and thus helped reverse the relatively slow loan growth seen in the two prior years. Regarding the composition of loans, Zemen Bank continues to have a high share of its loans devoted to sectors accorded high national priority, with the five largest categories comprising: Manufacturing (20%), Imports (19%), Exports (17%), Domestic Trade and Services (12%) and Building & Construction (11%). With respect to loan quality, the Bank's gross NPL ratio is now 4.55 percent, almost exclusively due to two long-standing cases (involving a car assembly plant and a cattle exporter) whose recovery remains unresolved due to lengthy legal deliberations. Excluding these two loans, the Bank's NPL ratio on the rest of its loan book is just 0.6 percent due to zero net new NPL creations for the second year in a row.

Deposit Trends:2011-15 GRAPH 6



Loan Book Composition GRAPH 7



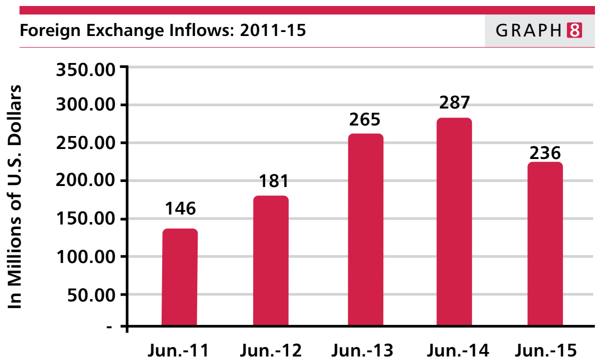
INTERNATIONAL BANKING

International Banking:

Following six successive years of steady growth, the Bank's foreign exchange inflows and income declined for the first time last year. Foreign exchange inflows averaged just under $20 million per month and amounted to a total of $236 million for the fiscal year, representing an 18 present decline from the prior fiscal year. The decline has been driven solely by a lower-than-expected inflow of transfers/ remittances, which fell sharply from the year before, while export-related FX inflows actually grew by a comparatively strong 11 percent during the year. The fall in total foreign exchange inflows is consistent with pressures in the broader economy, as seen for example in the 8 percent drop in Ethiopia's exports during FY 2014-15. In terms of activity levels, the International Banking Department handled close to 1,150 export, import, and transfer transactions per month and completed a total of about 13,800 transactions during the course of the year. The Bank has expanded its correspondent banking and RMA relations with 89 banks covering over 35 countries, including active correspondent account relationships with many global financial institutions. Zemen Bank also continues to provide foreign currency accounts to around 700 qualified customers, such as foreign investors, embassies, international organizations, and the diaspora.

Multi-channel banking services:

Zemen Bank's banking services continue to be delivered via a range of banking channels, all tailored



to the demands and preferences of particular client segments. Accordingly, based on their needs, our customers use service points that may include either our physical outlets or our technology-aided channels such as ATMs, internet banking, and mobile banking services. To provide a snapshot of our activities in these multiple service delivery channels:

- Our two main banking facilities in Addis Abeba—**Main Branch and the Bole Banking Center**—have shown moderate growth in activity, driven by a 24 percent increase in the number of deposit accounts at the two locations last year. In line with the rising number of accountholders, there was a 30 percent growth in the value of cash and cheque transactions during the year. Total customer transactions reached a record high of over 278,000 for the year, equivalent to around 1,000 customer transactions on a typical business day.

- **Regional Banking Centers** are expanding in several of the largest cities outside Addis Ababa, including Hawassa, Adama, Dire Dawa, and Mekelle as of June 2015. Two additional facilities—in Bahr Dar and Gondar—became operational at end-2015, in line with the Bank's efforts to be present in all key regional business centers.

- **Sub-Branches** continued to provide a limited set of services to specific corporate customers (e.g., Embassy of Sweden, Embassy of the Netherlands, Sher Ethiopia PLC, and Emirates Airlines) as well as to the broader public (e.g. at the Main Post Office and Wabe Shebelle Hotel). Including all of the above, the Bank now has physical facilities providing banking services at a total of 13 locations.

- Our **ATMs** continue to be a highly valued banking channel for many of our customers, with nearly 1,000 users making close to Birr 1.4 million in cash withdrawals on a typical day. For the year as a whole, around Birr 500 million has been withdrawn from our ATMs, or an average of Birr 42 million in cash withdrawals per month, up 7 percent from the previous year. On peak occasions, over Birr two million in cash is withdrawn per day at Zemen Bank ATMs, indicative of our continuous internal efforts to widen their reach and minimize their downtimes. Through a collaboration with Dashen Bank under the "Q-Link" network, customers of Zemen and Dashen Banks are both able to benefit from a total network of more than 200 ATMs at locations throughout Addis Ababa and several regional cities.

The world's two largest card networks, VISA and MASTERCARD, both continue to be accessible at our ATMs, allowing a very wide pool of international cardholders to access local currency funds from the convenience of a local ATM.

- **Internet Banking:** Our Internet facilities are utilized by around 7,000 users every month, providing a very convenient channel to our corporate and personal clients. Since its launch, our customers have accessed our internet banking facilities over 200,000 times to fulfill their banking needs, including for retreiving account balances and loan statements. A recently improved Internet Banking software now offers a truly world-class package of online banking tools, with enhanced features such as simplified corporate payroll payments, a optional system of multiple persons to initiate/authorize transactions, and an ability to transfer funds to accountholders located at other banks.

- **Mobile Banking:** Zemen Bank completed two phone-based service offerings that allow users to access their bank account records over their mobile phones. Our SMS Banking system allows such access via text messages (SMS Banking—available at *844#) while the other allows information retrieval via voice-based prompts at a dedicated phone line (IVR Banking—available at 8700). These facilities allow customers to check balances, review transaction activity, and make fund transfers over the phone.

- Our **Doorstep Banking** services are helping numerous local and foreign companies improve their cash and treasury management thanks to our convenient cash delivery and pick-up services. More than 2,000 Doorstep Banking related trips involving transactions totaling Birr 640 million have been completed as part of our dedicated service to large corporate businesses with very high cash turnover.

- Our **Corporate Payroll Services** have been serving near 15,000 employees on a monthly basis, with beneficiaries ranging from field workers at several large commercial farms to the staffs of embassies, international organizations, and foreign investors within Addis Ababa. A total of more than Birr 193 million (up 34 percent from last year) has been paid out as part of our corporate payroll services during the course of the year.

Human Resources and Administration:

To fully support the rapid growth of the many operational activities noted above, the Bank continued the upgrading and strengthening of its staff capabilities. In this regard, the Bank's staff headcount has been raised from 396 to 438 during the fiscal year, with a continued focus placed on recruiting the most talented and experienced professionals available in the market. Training of staff continues to be accorded special attention, with 377 staff receiving training in the areas of credit appraisal, project finance, risk management, new product development, trade finance, international banking, and Anti-Money Laundering. A tailored customer service training program—developed by top trainers from the US—continues to be in place with the aim of making our client services in this area among the best in the industry.

ON LINE BANKING

Risk Management:

A fully separate Risk Department continues to lead the Bank's work on risk identification, monitoring, and mitigation, including coverage of risks related to credit, liquidity, markets, foreign exchange, operations, and strategy. Beyond quarterly Risk Reports presented independently to the Board of Directors, the work of the Risk Department has also included Loan Review Reports, IT Risk Reports, and Compliance Reports particularly as they related to AML/CFT. Regular compliance and reporting requirements to the Financial Intelligence Center (FIC) have also been handled throughout the year. Credit risks continue to be given close attention, with regular analysis done in this area via case-by-case loan file reviews, a credit scoring system to evaluate borrower risks, and the use of Value-at-Risk models to forecast required provisioning levels. The task of regularly identifying and mitigating risks is further supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Committee and Loan Review Committee.

Outlook for the year ahead

FY 2015-16 will be a year of transition as Ethiopia embarks on a Second Growth and Transformation Plan that sets new directions and priorities for the banking industry as well as the economy as a whole. Accordingly, the new fiscal year will provide the Bank with an opportunity to take a long-term view of its own mission, strategy, and operations in the context of the rapidly changing business, economic, and regulatory environment. To this end, the following major tasks are envisaged for the period ahead:

- **New Strategy Plan for the Next Five Years:** Zemen Bank was in the last year of implementing its current Strategy Plan, and is thus commencing work on a new Strategy Plan that will articulate the Bank's key priorities and objectives for the period to 2020. A consultative process will be followed during this work, including through inputs from key stakeholders—customers, staff, shareholders and the wider public. Beyond setting the broad direction for the Bank's work up to 2020, the Strategy Plan will revisit and refine many aspects of the Bank's product offerings, business mix, customer base, and operational structures and systems.

- **Boosting Resource Mobilization:** As the Bank's recent performance in mobilizing deposits and foreign exchange has been below expectations, a strong emphasis will be given to improving results in this area for the coming year. Accordingly, our work program has put in place specific initiatives to this effect, including through increased budget allocations, higher staffing, and stronger management oversight/performance monitoring over deposit and foreign exchange mobilization activities.

- **Asset Recovery:** The Bank has in prior fiscal years currently set aside a large provision allowance to cover for two non-performing loans which are under extended legal deliberations. As before, strong efforts will be exerted to bring closure to these cases, though the pace of progress in this area—despite Management's best efforts—is determined by external developments beyond the Bank's control. In addition, recovery efforts will continue to be pursued on the few write-off cases for possible income realization in that respect as well.

- **Additional Banking Centers:** will continue to be expanded at a moderate pace for the coming fiscal year. Two additional banking facilities-to be located in key business districts-are planned in Addis ababa for 2016. Else where,new locations planned for this year include Bahr Dar, Gondar, and Humera, which will add to our existing banking centers in Hawassa, Adama, Dire Dawa, and Mekelle. As before, each of these regional banking centers will continue our past practice of delivering corporate-focused banking services via a menu of alternative banking channels and with high standards of customer service.

- **Agent Banking:** In line with regulatory initiatives in this area, and to support the Bank's broadening reach, Zemen Bank will begin the use of third-party agents that can serve the bank's customers for basic banking transactions. Accordingly, a pilot scheme in this connection will be commenced in FY 2015/16, and a much more substantial scaling-up rolled out in subsequent years.

- **Capital Increase:** The Board of Directors will propose a Birr 150,000,000 increase in the paid-up capital base at the Annual General Meeting of Shareholders in December 2015. This 30 percent increase will raise our paid-up capital to Birr 650 million and is intended to be broadly in line with growth in the Bank's balance sheet. The higher capital base will also provide the Bank with greater flexibility in its lending and foreign exchange operations. Given regulations requiring Birr 2 billion in paid-up capital by June 2020, the Bank anticipates relatively similar annual percentage increases in paid-up capital over the coming years. The specific schedule of the capital increases will be laid out in our new Strategy Plan for the coming five-year period.

- **Headquarters Building:** The coming fiscal year will be devoted to putting out bids for—and selecting—a contractor to start the main foundation and skeleton work of the Headquarters building. The excavation and shoring work for the Building had been bid out and assigned to a contractor separately last year, and this part of the work was completed successfully and on schedule in August 2015. Regarding the appropriate financing modalities for the Headquarters Building, after an in-depth consideration of various options, the Board of Directors has reached the determination that the most appropriate funding means is through the use of shareholder funds to be raised over the coming years, especially in light of the recent regulatory requirement that paid-up capital reach Birr 2 billion by June 2020.

- **Deployment of Point of Sale (POS) Terminals:** After lengthy delays reflecting internal and external factors, the deployment of Point of Sale terminals is finally expected in the new fiscal year, given the completion of the associated technical work in this area. The anticipated roll-out of over 50 POS terminals at various retail locations is to serve multiple user groups covering Zemen Bank customers, Mastercard users, and (following Principal Membership formalities) VISA card users as well.

- **Equity Investments:** Zemen Bank remains committed to undertaking selected equity investments and has in this connection already signed Letters of Intent with several promising prospective cases. A new NBE Directive limits the Bank's degree of participation in this area, but still allows for banks to undertake equity investments of up to 10 percent of their capital. Our equity investments will be guided by a Board-approved policy framework and will also be reviewed in a case-by-case basis by the Board of Directors.

In conclusion, Zemen Bank will in FY 2015/16 continue putting in place the main foundations for its long-term growth. Our new Strategy Plan will articulate our key objectives for the coming five-year period and, whatever strategic refinements we may undertake as part of that process, we will of course remain committed to delivering distinctive banking services to our customers and satisfactory profits and dividends to our shareholders.

Bank in Comfort **from anywhere, anytime.**

Whether you're working hard or out relaxing, we are at your service.

Luxury (n): something desirable or costly but difficult to obtain. It is often said that true luxury is the luxury of having free time... something hard to achieve in today's busy world. Zemen Bank's state-of-the-art services, including 24 hour access to cash through ATM, extended banking hours, internet and Phone Banking, are all designed to give you just one thing - THE LUXURY OF TIME.

Mortgage Loans

Zemen Bank's mortgages can make your dreams of owning a home come true. Zemen Bank Home Loans are designed for those with steady incomes and the ability to cover at least 30 percent of the cost of the homes.

Corporate Loans

Zemen Bank's corporate lending services can finance businesses that need: Term loans to establish/expand operations, Machinery/ vehicles/equipment loans, Export or import financing, Merchandise loans, Short-term lines of credit, Project finance loans

Personal Loans

Zemen Bank offers personal loans to individuals with full-time employment or with other steady income sources.

www.zemenbank.com www.zemenbank.com

CUSTOMER SNAPSHOTS

Reykjavik Geothermal

Repi Soap And Detergent S.C

Turkish Airlines

Mama Fresh Enjera

Unilever

Ethiopia's biggest flower exporter

Great Abyssinia

Kifiya Financial Technology

Luna Meat Exports

The world's biggest brand

CUSTOMER SNAPSHOTS

Pioneer in oil exploration

Ethiopia's leading
mobile phone assembler

Ethiopia's largest wine producer

International Air Transport Association

HEINEKEN

MARATHON MOTORS
Hyundai's exclusive dealer

MTN

A world-class airline

An African consumer goods giant

Radisson BLU

DoorStep Banking

Check, CPO, Cash collection and delivery services

Z-Doorstep Banking service is a solution that renders CPO, cash, and check collection services to a specified address without compromising the safety of your money. Zemen Bank will pick up your money and deposit it into your account while issuing deposit slips on site. Furthermore, your money will earn a high interest rate each day at Zemen Bank while deposited in a saving account.
Delivery and pick up orders can be placed via email, fax, telephone.

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"We've got you linked!"
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Quick-links for your convenience.
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Earn Interest Every day...

Deposit your money at Zemen Bank and earn interest every day!

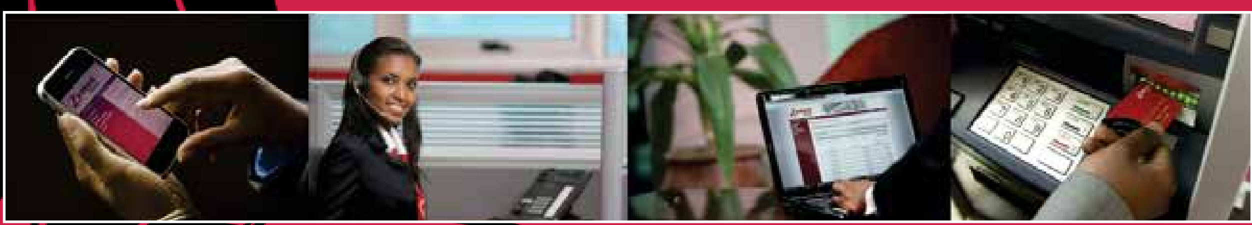
Why wait a full month to earn interest on your deposits when you can earn additional income every day? Zemen Bank calculates interest on your deposits daily, allowing you to earn more for all the things you want to do with your money.

So make a decision today and enjoy Zemen Bank's other distinctive services, including 24 hour ATM access, Phone Banking, Internet Banking, Debit Cards and more!

MODERN BANKING SERVICES

Zemen Bank is all about giving customers choices and conveniences, Accordingly, we provide our customers with the option of banking at a branch, over the phone, via an ATM, through the internet, or even at your doorstep. The options are there, the choice is yours!

We welcome you to visit our impeccably furnished Branch, always fully staffed to minimize the transaction times at our counters. Indeed, all our branch transactions are electronic and we strive to complete your visit in just 5 minutes.



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AUDITORS' REPORT

ATMs
Our ATMS allow customers to perform their basic banking activities such as cash withdrawals and balance inquiries 24 hours a day, 7 days a week.

On line Banking
You can check account and loan balances, transfer funds, access daily exchange rates, and (soon) pay your bills online with just a click of a mouse from anywhere and at anytime.

Call Center (0)11 550 1111
Customers can check balances or make account enquiries over the phone. Customers are also able to access current interest rates, forex rates and transfer funds.

Mobile Banking
Zemen's Mobile Banking Service will enable customers to check their balances and, most importantly, send/receive funds via their mobile phones.

ZEMEN BANK SHARE COMPANY STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of the operating results of the bank for that year. The directors are also required to ensure that the bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirement of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008 and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirement of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008. 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 bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

Nothing has come to the attention of the directors to indicate that the bank will not remain a going concern for at least the next twelve months from the date of this statement.

Amare Habe
Chairman of the
Board of Directors

Tsegay Tetemke
President/CEO

27 October 2015

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ZEMEN BANK S.C.

Report on financial statements

We have audited the accompanying financial statements of Zemen Bank Share Company, set out on pages 29 to 70 which comprise the statement of financial position as at 30 June 2015, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008 and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 30 June 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008.

Report on Other Legal Requirements

As required by the commercial code of Ethiopia, based on our audit we report as follows:

i) Pursuant to Article 375 (1) of the commercial Code of Ethiopia, 1960 and based on our reviews of the board of directors' report, we have not noted any matter that we may wish to bring to your attention.

ii) Pursuant to article 375 (2) of the commercial code of Ethiopia we recommend the financial statements for approval.

HST
HST
Chartered Certified Accountants

HST, Chartered Certified Accountants
and Authorized Auditors
Addis Ababa 27 October 2015

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ZEMEN BANK S.C.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

In Ethiopian Birr

	Note	2015	2014
INTEREST INCOME	5	262,573,649	205,430,993
INTEREST EXPENSE	6	(136,711,363)	(114,450,637)
NET INTEREST INCOME		125,862,286	90,980,356
Fees and commission income	7	152,005,287	158,569,298
Gains on foreign exchange dealings & fluctuations (net)	8	83,338,900	90,547,868
Other income	9	4,062,874	706,169
OPERATING INCOME		365,269,347	340,803,691
Operating expenses	10	(164,344,716)	(120,309,534)
Board of Directors' remuneration	33	(411,918)	(450,000)
Impairment losses on loans and advances	15(a)	-	(55,476,734)
PROFIT BEFORE TAXATION		200,512,713	164,567,423
TAXATION CHARGE	11(a)	(47,237,229)	(36,611,936)
PROFIT FOR THE YEAR		153,275,484	127,955,487
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		153,275,484	127,955,487
EARNINGS PER SHARE (of ETB 1000 each)	12	320.24	320.80

ZEMEN BANK S.C.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

In Ethiopian Birr

	Note	2015	2014
ASSETS			
Cash and balances with National Bank of Ethiopia and other banks	13	1,154,328,247	1,493,765,017
Government securities	14	1,357,543,887	947,081,887
Loans and advances to customers	15(a)	2,156,690,020	1,303,682,120
Investment in equity shares	16	11,371,000	5,031,000
Other assets	17	92,685,813	100,609,223
Property held for sale	18	-	8,320,023
Property, plant and equipment	19	61,487,849	32,942,596
Intangible assets	20	33,024,285	26,002,054
Leasehold land	21	7,209,545	7,335,537
TOTAL ASSETS		4,874,340,646	3,924,769,457
LIABILITIES			
Customer deposits	22	3,819,454,452	3,030,870,703
Due to financial institutions	23	3,805,076	2,258,956
Other liabilities	24	144,122,164	106,676,613
Finance lease obligation	25	6,047,650	6,047,650
Margins held on letters of credit	26	88,886,280	85,363,953
Tax payable	11	47,168,110	36,540,037
TOTAL LIABILITIES		4,109,483,732	3,267,757,912
SHAREHOLDERS' FUNDS			
Share capital	27	500,000,000	449,576,000
Share premium		425,000	425,000
Retained earnings		114,853,634	95,854,115
Legal reserve	28	149,578,280	111,156,430
TOTAL SHAREHOLDERS' FUNDS		764,856,914	657,011,545
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		4,874,340,646	3,924,769,457

The financial statements on pages 29 to 70 were approved and authorised for issue by the board of directors on 27 October 2015 and were signed on its behalf by:

Amare Habe
Chairman of the Board of Directors

Tsegay Tetemke
President /CEO

ZEMEN BANK S.C.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

In Ethiopian Birr

	Share Capital	Share premium	Legal reserve	Retained earnings	Total
At 1 July 2013	**343,813,000**	425,000	**79,055,058**	**70,193,569**	**493,486,627**
Issue of shares	105,763,000	-	-	-	105,763,000
Profit for the year-2014	-	-	-	127,955,487	127,955,487
Transfer to legal reserve	-	-	32,101,372	(32,101,372)	-
Dividends declared-2013	-	-	-	(70,193,569)	(70,193,569)
At 30 June 2014	**449,576,000**	**425,000**	**111,156,430**	**95,854,115**	**657,011,545**
At 1 July 2014	**449,576,000**	**425,000**	**111,156,430**	**95,854,115**	**657,011,545**
Issue of new shares (note 27)	50,424,000	-	-	-	50,424,000
Profit for the year - 2015	-	-	-	153,275,484	153,275,484
Transfer to legal reserve	-	-	38,421,850	(38,421,850)	-
Dividends declared - 2014	-	-	-	(95,854,115)	(95,854,115)
At 30 June 2015	**500,000,000**	**425,000**	**149,578,280**	**114,853,634**	**764,856,914**

ZEMEN BANK S.C.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

In Ethiopian Birr

	Note	2015	2014
Cash flows from Operating Activities			
Cash generated from/ (used in) operating activities	29(a)	(234,667,542)	702,503,606
Tax paid	11(b)	(36,540,037)	(29,642,944)
Advance profit tax paid	11(b)	(69,119)	(71,899)
Net cash generated from/ (used in) operating activities		(271,276,698)	672,788,763
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(46,966,582)	(14,266,701)
Acquisition of intangible assets	20	(14,702,897)	(5,099,671)
Proceeds from sale of property, plant and equipment		3,733,403	36,091
Purchase of equity shares	17	(6,340,000)	-
Net cash used in investing activities		(64,276,076)	(19,330,281)
Cash flow from financing activities			
Proceeds from issue of shares		50,424,000	105,763,000
Dividends paid		(95,854,115)	(70,193,569)
Net cash(used in) /generated from financing activities		(45,430,115)	35,569,431
Increase (decrease) in cash and cash equivalents		(380,982,889)	689,027,913
Cash and cash equivalents at the beginning of the year		1,336,506,061	647,478,148
Cash and cash equivalents at the end of the year	29(b)	955,523,172	1,336,506,061

ZEMEN BANK S.C.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

In Ethiopian Birr

1. REPORTING ENTITY

Zemen Bank Share Company was established in Addis Ababa in 2008 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 84/94 and the Commercial Code of Ethiopia of 1960.

The Bank's principal activity is commercial banking.

The registered address of the Bank is Addis Ababa, Ethiopia and has two Branches, four corporate units and 5 Kiosks.

2.ACCOUNTING POLICY

Statement of Compliance

The Financial statement have been prepared in accordance with International Financial Reporting Standards (IFRS)

For the purpose of reporting under the Commercial code of Ethiopia, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRS)

Application of new and revised International Financial Reporting Standards (IFRS) and Interpretations(IFRIC)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2015

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The accompanying notes are an integral part of the financial statements.

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the bank is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 July 2014).

(ii) New standards and amendments to published standards effective for the year ended 30 June 2015

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.The amendments have been applied retrospectively. As the bank does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the bank's financial statements.
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*. As the bank does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the bank's financial statements.
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. As the bank does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the bank's financial statements.
IFRIC 21 Levies	IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the bank's financial statements.

ZEMEN BANK S.C.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

In Ethiopian Birr

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IAS 16 and IAS 41	1 January 2016
Amendments to IAS 19	1 July 2014
Amendments to IFRS's Annual improvements 2010- 2012 cycle	1 July 2014
Amendments to IFRS's Annual improvements 2011- 2013cycle	1 July 2014

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2015 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the bank.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the bank uses the tax depreciation rate for depreciation and amortisation for its property, and equipment, and intangible assets respectively. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The directors of the bank do not anticipate that the application of these amendments to IFRS 11 will have an impact on the bank's financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the bank do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the bank's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below

- The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

- The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

- The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
- The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.
- The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
- The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

  The directors do not anticipate that the application of these amendments will have a significant impact on the bank's financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required.

Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and

(b) the transaction meets the definition of a business combination under IFRS 3

The directors do not anticipate that the application of these amendments will have a significant impact on the bank's financial statements.

(iv) Early adoption of standards

The bank did not early adopt any new or amended standards for the year ending 30 June 2015.

3. Summary of significant Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting.

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. When a loan account becomes non-performing, interest is suspended until it is realised

Interest income includes interest on loans and advances, placements with other banks and investments in government securities, and is recognized in the period in which it is earned.

Fees and commission income

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, letters of credit opening fees, syndication fees among other service fees and commissions are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is calculated in accordance with Income Tax Proclamation 286/2002 on the straight-line basis for buildings and on the written down value for other assets. The annual depreciation rates generally in use are:

Buildings	5%
Motor vehicles	20%
Computer hardware and software	25%
Other office equipment	20%
Furniture and fittings	20%

Intangible assets

Intangible assets comprise the cost of purchased computer software programs and other costs to bring the asset to the usable state. Expenditure is capitalised and amortised using the straight line method over estimated useful lives, of five years.

Properties held for sale

Properties held for sale is movable and immovable properties acquired through a foreclosure and available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. They are stated at the lower of the carrying amounts and at their fair value less cost to sell.

Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. Previously recognised impairment losses may be reversed to the extent of the assets carrying amount.

Foreign currencies

i) Functional and presentation currency
The financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The financial statements are presented in Ethiopian Birr (ETB), which is the Bank's functional and presentation currency.

ii) Transactions and balances
Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial instruments

i) Recognition

A financial asset or liability is recognised when the Bank becomes party to the contractual provisions of the instrument.

ii) Classification and Measurement

Financial assets

The bank classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise.

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances are recognized when cash is advanced to borrowers. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets
Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Where fair value cannot be reliably measured, the unquoted investment is carried at cost. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Impairment and un-collectability of financial assets
At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is included in profit or loss for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment together with financial assets with similar risk characteristics.

Objective evidence that financial assets are impaired can include observable data that comes to the attention of the bank about the following loss events:

- Significant financial difficulty of the borrower
- default or delinquency by a borrower,
- restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider,

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- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that is, on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral types, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

a) Assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

b) Assets carried at fair value

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Financial liabilities

Debt and equity instruments are classified, as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

After initial recognition, the bank measures all financial liabilities including customer deposits and borrowings other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

The accompanying notes are an integral part of the financial statements.

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Derecognition of financial liability

Financial liabilities are derecognised and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Legal reserve

The legal reserve which is a statutory reserve to which no less 25% of the net profits after taxation shall be transferred each year until such fund is equal to the capital. When the legal reserve account equals the capital of the bank, the amount to be transferred to the legal reserve account shall be 10% percent of the annual net profit.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized.

Retirement benefit costs

Staff retirement benefits are provided to some permanent employees by way of a provident fund to which the Bank and these employees contribute 15% and 7% of the individual monthly salaries, respectively. Other employees are included in a statutory pension scheme to which the Bank and these employees contribute 11% and 7% of the individual monthly salaries.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

Leases

Leases of property where the bank assumes substantially all the benefits and risks of ownership are classified as finance leases. All other leases are classified as operating leases.

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Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charge are included in other long-term payables. The interest element of the finance charge is charged to the profit or loss over the lease period. The property acquired under finance leasing contracts is depreciated over the useful life of the asset.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Lease hold land

Payments made to acquire leasehold land are treated as prepaid operating and amortized over the term of the lease.

Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Ethiopian Birr at the rates of exchange ruling at the reporting date. Transactions in foreign currencies during the year are translated at the rates ruling at the dates of the transactions. Exchange gains and losses are dealt with in the profit or loss.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. CRITICAL JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

In the process of applying the bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical accounting judgments in applying the bank's accounting polices

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the loans and advances evaluates its intention and ability to hold such investments to maturity. If the loans and advances fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

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5. INTEREST INCOME	**2015**	**2014**
Loans and advances	217,696,088	161,510,306
National Bank of Ethiopia bills– Held to maturity	33,521,419	25,593,074
Deposits with local banks	11,355,935	13,985,985
Treasury bills	-	4,339,112
Deposits with foreign banks	207	2,516
	262,573,649	205,430,993
6. INTEREST EXPENSE		
Interest on savings deposits	118,522,364	106,436,001
Interest on fixed time deposits	18,165,629	7,985,746
Interest on demand deposit	23,370	28,890
	136,711,363	114,450,637
7. FEES AND COMMISSION INCOME		
Service charge-foreign	141,083,493	150,587,785
Balance maintenance fee	2,203,993	2,500,020
Loan processing fee	4,315,734	1,558,128
Commission on VISA	1,399,882	1,637,311
Commission Letters of guarantee issued	1,136,101	517,906
Service charge-local	1,186,690	1,464,963
Commission on Cashiers Payment Order	314,825	263,915
Commission on MasterCard	291,825	-
Telephone, telex and fax	63,064	37,200
Fee on prepaid cards	9,680	2,070
	152,005,287	158,569,298

8. GAINS ON FOREIGN EXCHANGE DEALINGS

Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency monetary assets and liabilities.

9. OTHER INCOME		
Sundry income	1,754,678	665,354
Gain on disposal of assets	2,308,196	22,150
Legal fees	-	18,665
	4,062,874	706,169

The accompanying notes are an integral part of the financial statements.

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	2015 (ETB)	2014 (ETB)
10 OPERATING EXPENSES		
Salaries and benefits (note 10(a))	73,770,952	53,660,522
Office rent	23,733,041	20,274,164
Depreciation & amortization	24,676,789	12,952,190
VISA charges	6,043,342	4,715,636
Master card charge	3,941,926	-
Licences and inspection fees	6,283,492	6,067,845
IT service provider	2,184,292	2,296,014
Stationery and printing	2,475,183	1,782,615
Fuel and lubricants	1,413,829	1,394,779
Communications	4,212,247	2,479,931
Insurance	1,862,175	1,282,593
Advertising and publicity	3,602,701	3,702,789
Repair and maintenance	1,610,400	1,135,777
Inauguration	1,793,572	1,438,873
Per diems	1,474,055	1,342,725
Sundries	1,021,056	1,180,672
Correspondent charges	754,486	815,079
Entertainment	545,237	630,113
Bank service charges	283,444	263,197
Electricity and water	398,316	482,637
Cleaning supplies	791,387	527,162
Audit fees	250,000	148,350
Directors' transport allowance (note 33)	190,000	206,000
Donations and contributions	527,355	187,500
Membership subscription	165,278	155,988
Amortization	125,992	125,993
Penalty	214,169	-
Bad debt expense	-	1,021,188
Loss on disposal of old assets	-	39,202
	164,344,716	120,309,534
10 (a). STAFF COST		
Salary and benefits	66,996,846	49,057,605
Pension and provident fund	6,774,106	4,602,917
	73,770,952	53,660,522

The accompanying notes are an integral part of the financial statements.

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11. TAXATION	**2015**	**2014**
(a) Taxation charge		
Current taxation based on the taxable profit for the year at 30%	47,237,229	36,611,936
Accounting profit before taxation	200,512,713	164,567,423
Tax at the applicable rate of 30%	60,153,814	49,370,227
30% Tax effect of expenses not deductible for tax purposes:		
Directors Remuneration	123,575	135,000
Entertainment	163,571	189,035
Donation	158,206	56,250
Non-deductible representation	37,070	37,505
Penalty	64,251	-
Tax effect of income taxed at lower rates/exempt for tax purposes:		
Interest income (taxed at source)	(3,406,781)	(4,195,796)
Interest income-foreign (taxed at different rate)	(62)	(755)
Interest on National bank of Ethiopia bills (exempt)	(10,056,426)	(7,677,922)
Interest on treasury bills (exempt)	-	(1,301,734)
Interest income-foreign (taxed at different rate)	11	126
Taxation charge for the year	47,237,229	36,611,936
(b) Tax payable		
At the beginning of the year	36,611,936	29,642,944
Taxation charge for the year	47,237,229	36,611,936
Tax paid during the year	(36,611,936)	(29,642,944)
Advance profit tax paid	(69,119)	(71,899)
At the end of the year	47,168,110	36,540,037

The Ethiopian Revenue and Customs Authority has not assessed the Bank since its inception.

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12. EARNINGS PER SHARE	**2015**	**2014**
Profit attributable to owners of the Bank (ETB)	153,275,484	127,955,487
Weighted average number of shares during the year	478,631	400,272
Earnings per share – ETB (of ETB 1,000 each)	320.24	320.80

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

13. CASH AND BANK BALANCES

Cash on hand (note 13.1)	164,815,959	138,888,187
Balances with National Bank of Ethiopia		
- Cash ratio requirement (note 13.2)	195,000,000	155,000,000
- Payment and settlement account	316,378,398	394,176,845
Balances with domestic banks	33,951,828	339,228,328
Balances with foreign banks	444,182,065	466,471,657
	1,154,328,247	1,493,765,017

13.1 Cash in hand (in the account of Zemen Bank) includes ETB 11,289,600 in blocking account in the name of Addis Ababa City Administration Land Administration and building permit Authority in connection with the lease land.

13.2 The cash ratio requirement balance is non-interest bearing and is based on the value of customer deposits as adjusted by the National Bank of Ethiopia requirements; as per directive No SBB/55/2013. As at 30 June 2015, the cash ratio requirement was 5% (2013 -5%) of all eligible deposits. These funds are not available to finance the Bank's day to day operations.

14.GOVERNMENT SECURITIES

Bills held to maturity at 3% p.a		
- maturing during the year ended 30 June 2016	216,483,887	216,483,887
- maturing during the year ended 30 June 2017	174,200,000	174,200,000
- maturing during the year ended 30 June 2018	338,233,000	338,233,000
- maturing during the year ended 30 June 2019	218,165,000	218,165,000
- maturing during the year ended 30 June 2020	410,462,000	-
	1,357,543,887	947,081,887

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NOTES TO THE FINANCIAL STATEMENTS

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15(a). LOANS AND ADVANCES TO CUSTOMERS	2015	2014
Export	380,075,856	322,639,821
Import	431,307,241	253,391,187
Building and construction	258,252,304	191,559,872
Manufacturing	471,637,472	204,540,093
Domestic trade	282,881,048	177,902,469
Transport and communication	164,450,371	47,209,310
Agriculture	46,492,347	36,090,063
Personal	92,784,394	68,743,209
Hotel and tourism	74,632,877	44,315,626
Others	76,609,143	70,902,582
Financial Institutions	2,818,986	11,100,631
Mines, Power , and Water Resource	1,025,502	1,564,777
	2,282,967,540	1,429,959,640
Less: Provision for doubtful debts and advances	(126,277,520)	(126,277,520)
	2,156,690,020	1,303,682,120

MATURITY OF GROSS LOANS AND ADVANCES (NET OF PROVISIONS)		
Maturing		
Within three month	410,113,625	325,384,374
Within 3-12 months	561,272,773	262,695,306
Above one year	1,311,581,142	841,879,960
	2,282,967,540	1,429,959,640
Less: Provision for impairment losses (note 15(b))	(126,277,520)	(126,277,520
Loans and advances to customers (net)	2,156,690,020	1,303,682,120

15(b). IMPAIRMENT LOSS ON LOANS AND ADVANCES		
At the beginning of the year	126,277,520	116,728,852
Provisions in the year	-	55,476,734
Written off in the year	-	(45,928,066)
At the end of the year	126,277,520	126,277,520

The accompanying notes are an integral part of the financial statements.

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16. INVESTMENT IN EQUITY SHARES	2015	2014
Ethio Switch Share Company		
11,371 shares of Birr 1,000 each par value	11,371,000	5,031,000
	11,371,000	5,031,000

Investments in equity are valued at cost.

17. OTHER ASSETS

	2015	2014
Prepayments	55,238,388	51,143,097
Interest receivable	17,802,279	20,979,467
Miscellaneous	3,441,373	11,127,628
Stocks	8,301,521	5,293,407
Outward bills purchased	7,901,529	11,001,451
Claim on HO and Branches	723	1,064,173
	92,685,813	100,609,223

18. PROPERTY HELD FOR SALE

Properties acquired through foreclosure and available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets are accounted separately in accordance with IFRS 5.The assets are measured at the lower of its carrying amount and fair value less costs to sell. There are no properties held for sale during the year.

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19. PROPERTY, PLANT AND EQUIPMENT	Motor vehicles	Computers	Office Equipment	Total
COST				
At 1 July 2013	16,930,490	24,652,153	17,187,953	58,770,596
Additions	985,391	6,199,586	7,081,723	14,266,701
Disposals	-	(19,458)	(191,547)	(211,005)
At 30 June 2014	17,915,881	30,832,282	24,078,129	72,826,292
At 1 July 2014	17,915,881	30,832,282	24,078,129	72,826,292
Additions	27,498,152	13,554,351	5,914,079	46,966,582
Disposals	(4,516,835)	(29,489)	(229,465)	(4,775,789)
At 30 June 2015	40,897,198	44,357,143	29,762,743	115,017,084
DEPRECIATION				
At 1 July 2013	7,319,862	14,257,729	9,169,296	30,746,887
Additions	2,119,204	4,147,487	3,005,830	9,272,521
Disposals	-	(15,394)	(120,318)	(135,712)
At 30 June 2014	9,439,066	18,389,822	12,054,808	39,883,696
At 1 July 2014	9,439,066	18,389,822	12,054,808	39,883,696
Additions	6,927,491	6,496,639	3,571,993	16,996,123
Disposals	(3,179,321)	(19,234)	(152,029)	(3,350,584)
At 30 June 2015	13,187,236	24,867,227	15,474,772	53,529,235
Net Book Value				
2015	27,709,962	19,489,916	14,287,971	61,487,849
2014	8,476,815	12,442,459	12,023,321	32,942,595

The accompanying notes are an integral part of the financial statements.

20. INTANGIBLE ASSETS

	Computer software	Capitalized expenditure	SWIFT software	Software Under progress	Total
COST					
At 1 July 2013	26,767,750	8,379,290	577,968	11,206,965	46,931,973
Additions	-	-	-	5,099,671	5,099,671
At 30 June 2014	26,767,750	8,379,290	577,968	16,306,636	52,031,644
At 1 July 2013	26,767,750	8,379,290	577,968	16,306,636	52.031,644
Additions	21,027,250	-	-	-	21,027,250
Deduction	-	-	-	(6,324,353)	(6,324,353)
At 30 June 2015	47,795,000	8,379,290	577,968	9,982,283	66,734,541
DEPRECIATION					
At 1 July 2014	13,840,525	7,960,325	549,071	-	22,349,921
Additions	3,231,806	418,965	28,897	-	3,679,668
At 30 June 2014	17,072,331	8,379,290	577,968	-	26,029,589
At 1 July 2014	17,072,331	8,379,290	577,968	-	26,029,589
Additions	7,680,667	-	-	-	7,680,667
At 30 June 2015	24,752,998	8,379,290	577,968	-	33,710,256
Net Book Value					
2015	23,042,002	-	-	9,982,283	33,024,285
2014	9,695,419	-	-	16,306,636	26,002,054

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NOTES TO THE FINANCIAL STATEMENTS

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21. LEASEHOLD LAND

Present value at inception	2015	2014
At the beginning of the year	7,559,562	7,559,562
Amortisation		
At the beginning of the year	224,025	98,033
Current year	125,992	125,992
	350,017	224,025
Net book value	7,209,545	7,335,537

The Bank has leased land from City Government of Addis Ababa for 60 years for the construction of the Bank's future headquarters for which lease payments are made annually. The Bank may transfer the leasehold right or use it as collateral or capital contribution to the extent of the lease amount already paid. The land is amortized over the lease life of 60 years.

22. CUSTOMER DEPOSITS

Payable on demand		
Private sector	738,070,185	675,104,873
Non-resident foreign currency accounts	194,296,884	164,351,529
Retention	51,342,244	45,713,632
Non-resident non-transferable Birr accounts	7,550,133	21,720,249
Non-resident diaspora	19,694,462	17,630,107
Public agencies and enterprises	3,444,713	11,696,357
Cooperatives and associations	6,304,998	3,499,136
Non-resident transferable Birr accounts	555,011	311,113
Total payable on demand	1,021,258,630	940,026,996
Savings deposits		
Private sector	2,164,332,387	1,828,361,837
Cooperatives and associations	109,633,505	100,091,134
Provident fund	9,051,740	26,900,919
Public agencies and enterprises	2,149,543	1,137,958
Non-resident repatriable Birr accounts	11,715,392	6,547,030
Total saving deposit	2,296,882,566	1,963,038,878
Fixed time deposits		
Cooperatives and associations	498,479,034	124,570,786
Public agencies and enterprises	2,834,222	3,234,043
Total fixed time deposit	501,313,256	127,804,829
Total customer deposit	3,819,454,452	3,030,870,703

The accompanying notes are an integral part of the financial statements.

	2015	2014
MATURITY ANALYSIS OF CUSTOMER DEPOSITS		
Repayable		
Within three months	1,704,543,186	1,070,632,189
Within 3-12 months	1,279,457,112	1,318,714,036
Above one year	835,454,152	641,524,478
	3,819,454,451	3,030,870,703

The bank applies interest rates in conformity with the NBE directives. The minimum interest rate on saving deposit accounts as at 30 June 2015 as per the directive was 5% (2014 - 5%).

23. DUE TO FINANCIAL INSTITUTIONS

	2015	2014
Payable on demand	39,187	1,745
Dashen Vestro Account	3,765,889	2,257,211
	3,805,076	2,258,956

24. OTHER LIABILITIES

	2015	2014
Cashier payment orders	62,746,948	72,890,527
Bloking payable	36,494,866	-
Accrual	19,263,849	12,497,767
Miscellaneous	6,610,602	7,253,471
Dividend payable	5,923,656	4,931,859
Exchange payable to National Bank of Ethiopia	4,479,850	4,868,884
Taxes and stamp duty charges	6,055,683	2,411,205
Old drafts outstanding	1,804,891	1,194,173
Directors fee	411,918	450,000
Pension and similar obligation	329,901	178,727
	144,122,164	106,676,613

25. FINANCE LEASE OBLIGATIONS

	2015	2014
Amounts payable under the lease agreement		
Amount payable within 1 year	201,588	-
Amount payable after 1 year	5,846,062	6,047,650
Total minimum lease payments	6,047,650	6,047,650
Analysis by cash flow:		
At the beginning of the year	6,047,650	6,047,650
Financing repaid	-	-
At the end of the year	6,047,650	6,047,650

The accompanying notes are an integral part of the financial statements.

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A finance lease obligation is in respect of leasehold land. It is obligation payable within thirty years with annual instalments of ETB 201,588 plus interest. The obligation bears interest at the rate of 9.5% per annum.

26. MARGIN HELD ON LETTER OF CREDIT

These represents cash deducted from customers account for new letters of credit issued/opened on behalf of customers and placed under other payables to serve as collateral against the letters of credit issued.

27. SHARE CAPITAL

Authorised:

	2015	2014
500,000 ordinary shares of Birr 1000 each (2014 - 449,576)	500,000,000	449,576,000
Issued and fully paid:		
500,000 shares of Birr 1000 each (2014 - 449,596)	500,000,000	449,576,000

The movement in share capital is as follows:

At 1 July 2013	343,813	343,813,000
Issue of ordinary shares	105,763	105,763,000
At 30 June 2014	449,576	449,576,000
At 1 July 2014	449,576	449,576,000
Issue of ordinary shares	50,424	50,424,000
At 30 June 2015	500,000	500,000,000

28. LEGAL RESERVE

The legal reserve is a statutory reserve to which no less 25% of the net profits after taxation shall be transferred each year until such fund is equal to the capital. When the legal reserve account equals the capital of the bank, the amount to be transferred to the legal reserve account shall be 10% percent of the annual net profit.

The accompanying notes are an integral part of the financial statements.

29. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operating activities

	2015	2014
Profit before taxation	200,512,713	164,567,423
Depreciation and amortization (note 19, 20 and 21)	24,802,781	13,078,182
Provision for impairment losses on loans and advances	-	9,548,668
Acquired property	8,320,023	324,652
Loss on disposal of property, plant and equipment	-	39,202
Gain on disposal of property, plant and equipment	(2,308,196)	-
Working capital changes:		
Balances with National Bank of Ethiopia		
- Cash ratio requirement	(40,000,000)	(22,104,000)
Loans and advances to customers	(853,007,900)	(60,304,968)
Purchase of Government securities	(410,462,000)	120,467,500
Other assets	7,923,410	(31,007,706)
Customer deposits	788,583,749	530,207,819
Other liabilities	37,445,551	1,441,080
Margins held on letters of credit	3,522,327	(23,754,246)
Cash generated from/(used in) operating activities	(234,667,542)	702,503,606

(b) Analysis of the balances of cash and cash equivalents

	2015	2014
Cash on hand (note 13)	164,815,958	138,888,187
Balances with National Bank of Ethiopia (note 13)	316,378,398	394,176,845
Placements and balances due from banking institutions		
- Domestic banks (note 13)	33,951,828	339,228,328
- Foreign banks (note 13)	444,182,064	466,471,657
Deposits due to banking institutions (note 23)	(3,805,076)	(2,258,956)
	955,523,172	1,336,506,061

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from Banks repayable within three months from the date of the advance.

ZEMEN BANK S.C.

NOTES TO THE FINANCIAL STATEMENTS

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30 . CAPITAL MANAGEMENT

The National Bank of Ethiopia sets and monitors capital requirements for the bank.

The bank's objectives when managing capital are:

- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders.
- To maintain a strong capital base to support the current and future development needs of the business.
- To comply with the capital requirements set by the National Bank of Ethiopia (NBE).

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed by the National Bank of Ethiopia for supervisory purposes. The required information is filed with the National Bank of Ethiopia on a monthly basis.

With effect from 19 September 2011, the National Bank of Ethiopia requires that:

a) The minimum paid up capital required to obtain a banking business license shall be Birr 500 million, which shall be fully paid in cash and deposited in a bank in the name and to the account of the bank under establishment. For existing banks, whose paid up capital is below Birr 500 million shall raise their paid-up capital to the said amount by June 30, 2016

b) As per NBE directive, the Commercial Banks are required to maintain a capital to risk weighted assets ratio of 8% at all time. The bank's capital to risk weighted asset as at 30 June 2015 is 30%.

The bank is also required to maintain a legal reserve which is a statutory reserve to which no less 25% of the net profits after taxation shall be transferred each year until such fund is equal to the capital. When the legal reserve account equals the capital of the bank, the amount to be transferred to the legal reserve account shall be 10% percent of the annual net profit.

The bank had met all the above requirements by the National Bank of Ethiopia as at 30 June 2015 and 30 June 2014. The make-up of the bank's capital is as presented in the statement of changes in equity.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

There have been no material changes in the bank's management of capital during the period.

31. FINACIAL RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks

Risk management framework

Risk management is one component of all core banking processes of the Bank. In its day-to-day activities the Bank is exposed to various types of banking risks, the most important of which are credit risk, liquidity risk, foreign exchange risk, interest rate risk and operational risk. The Bank has established a comprehensive risk management system in line with internationally accepted risk management principles and best practices with the necessary adoption to suit its core business activity.

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board has established the Assets and Liabilities (ALCO) and a Credit Committee which are responsible for developing and monitoring the bank's risk management policies in their specified areas.

The Bank's risk management and control is based on the following key principles

- The board of directors approves the risk management policies of the Bank and ensures their implementation.
- The management is responsible for implementing the policies in a manner that limits risks associated with each risk exposure.
- Appropriate and effective internal control exists to safeguard assets and to ensure compliance with relevant laws, regulations and institutional policies.
- The risk management and monitoring is supported by a management information system that supplies timely and consolidated reports on the financial conditions, operating performance and risk exposure of the Bank.
- The Independent Risk Management and Compliance Department is established to review compliance with the approved risk management policies and various risk related committees are established which are responsible for the implementation of the risk management policies.

(i) Credit risk

Managemnet of credit risk

Credit risk is the financial exposure resulting from a bank's dependence on another party to discharge an obligation as agreed and cause the bank to incur a financial loss. The Bank has established a credit risk management system on the basis of maximizing the return on its assets while keeping its credit exposure within acceptable limits. The Bank regularly reviews its credit portfolio quality, provisioning requirements and customer exposure

A credit risk management committee is responsible for implementing the credit risk management policy of the Bank. The Bank's loans and advances are diversified in various sectors as shown in note 15 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

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Concentrations of assets, liabilities and off balance sheet items

Details of significant concentrations of the bank's assets, liabilities and off balance sheet items by industry groups are as detailed below:

(a) Advances to customers- gross

	2015	%	2014	%
Manufacturing	471,637,472	21	204,540,093	14
Import	431,307,241	19	253,391,187	18
Building construction	258,252,304	11	191,559,872	13
Domestic trade and services	282,881,048	12	177,902,469	12
Export	380,075,856	17	322,639,821	23
Transport	164,450,371	7	47,209,310	3
Personal	92,784,394	4	68,743,209	5
Staff loans	76,609,143	3	70,902,582	5
Hotel and tourism	74,632,877	5	44,315,626	3
Agriculture	46,492,347	2	36,090,063	3
Financial institution	2,818,986	-	11,100,631	1
Mines, power and water resource	1,025,502	-	1,564,777	-
	2,282,967,540	100	1,429,959,640	100

(b) Customer deposits

Private Enterprises	2,902,402,572	76	2,503,466,671	83
Institutions and individuals	917,051,880	24	527,403,993	17
	3,819,454,452	100	3 ,030,870,703	100

(c) Off balance sheet items – (letters of credit and guarantees)

Letter of credit	244,641,408	91	315,778,016	96
Letter of guarantee and performance bond	23,611,910	9	14,768,345	4
	268,253,318	100	330,546,361	100

The accompanying notes are an integral part of the financial statements.

Maximum exposure to credit risk before collateral held

	2015	%	2014	%
On-balance sheet				
Government securities				
- held to maturity	1,357,543,887	28	947,081,887	23
Placements with other banks	989,512,289	20	1,354,876,830	34
Loans and advances to customers	2,282,967,540	47	1,429,959,640	35
	4,630,023,716	95	3,731,918,357	92
Off-balance sheet items:				
Letter of credit and guarantees	268,253,318	5	330,546,361	8
	4,898,277,034	100	4,062,464,718	100

The above table represents a worst case scenario of credit risk exposure to the bank at 30 June 2014 and 30 June 2015, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 47% of the total maximum exposure is derived from loans and advances to customers (2015: 35%) and 28% represents investments in government securities (2014: 23%).

Loans and advances to customers are secured by collateral in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The bank does not perceive any significant credit risk on the following financial assets:

- Investments in Government securities and balances with National Bank of Ethiopia.
- Deposits and balances due from banking institutions.

Investments in Government securities are deemed to be adequately secured by the Government of the Federal Democratic Republic of Ethiopia that has no history of default.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks with no history of default.

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Classification of loans and advances

	Gross amounts	Impairment allowances	Net amounts	
2015				
Neither past due nor impaired (Pass Loan)	2,021,280,627	20,212,806	2,001,067,821	93%
Past due but not impaired (Special Mention)	158,168,439	4,771,619	153,396,820	7%
Impaired (NPL)	103,518,474	101,293,095	2,225,379	-%
	2,282,967,540	126,277,520	2,156,690,020	100%
2014				
Neither past due nor impaired (Pass Loan)	1,154,145,843	13,790,417	1,140,355,426	87%
Past due but not impaired (Special Mention)	161,344,934	8,598,140	152,746,794	12%
Impaired (NPL)	114,468,863	103,888,963	10,579,900	1%
	1,429,959,640	126,277,520	1,303,682,120	100%

No other financial assets are either past due or impaired.

Loans and advances that are neither past due nor impaired

The bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as pass accounts in line with National Bank of Ethiopia (NBE) directives and a provision at 1 % is made and appropriated from reveune reserves to statutory reserves.

Loans and advances that are past due but not impaired

These are loans and advances where contractual interest or principal payments are past due by less than 90 days but the bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the bank. These exposures are categorised as special mention accounts in line with National Bank of Ethiopia (NBE) directives and a collective impairment allowance of 3% made to cover losses which have been incurred but have not yet been identified.

Impaired loans and advances

Impaired loans and advances are those for which the bank determines that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These exposures are categorised as substandard, doubtful and loss accounts in line with National Bank of Ethiopia (NBE) directives and a collective impairment allowance of 20%, 50% and 100% respectively made to cover losses which have been incurred but have not yet been identified.

According to the National Bank of Ethiopia directives, loans and advances overdue by above 90 days are considered non-performing.

The accompanying notes are an integral part of the financial statements.

Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The bank writes off a loan/security balance (and any related allowances for impairment losses) when credit determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral held

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over deposits and balances due from banks. Collateral usually is not held against government securities, and no such collateral was held at 30 June 2015.

An estimate of the fair value of collateral and other security enhancements held against impaired financial assets is shown below:

Value of securities held	ETB in Thousand
For loans classified as:	
Neither past due nor impaired (Pass Loan)	5,330,899
Past due but not impaired (Special Mention)	641,784
Impaired (NPL)	44,671
	6,017,354

(ii) Liquidity risk

Liquidity risk arises in the general funding activities of the bank and the management of positions. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank has a reasonable funding base. Funds are raised mainly from customers' deposits.

An asset and liability management committee is responsible for managing funding mismatches and attaining the desired level of liquidity in the manner described in the risk management policy.

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Contractual maturities of assets and liabilities

The maturity profile of assets and liabilities based on the remaining periods at 30 June 2015 was as follows:

At 30 June 2015	Up to 3 months	3-12 months	Over 1 years	Total
FINANCIAL ASSETS				
Cash and bank balances	1,154,328,247	-	-	1,154,328,247
Government securities	-	216,483,887	1,141,060,000	1,357,543,887
Loans and advances	410,113,625	561,272,773	1,311,581,142	2,282,967,540
Other assets	16,983,367	12,162,660	-	29,146,027
Investments in equity shares	-	-	11,371,000	11,371,000
	1,581,425,239	789,919,320	2,464,012,142	4,835,356,701
FINANCIAL LIABILITIES				
Customer deposits	1,704,543,186	1,279,457,112	835,454,152	3,819,454,450
Due to financial institutions	2,805,076	-	1,000,000	3,805,076
Other liabilities	129,708,591	14,412,066	-	144,120,657
Margins held	88,886,280			88,886,280
Profit tax payable	-	47,168,111	-	47,168,111
Finance lease obligation	-	201,588	5,846,062	6,047,650
	1,925,943,133	1,341,238,877	842,300,214	4,109,482,224
Net excess liquidity/ (liquidity gap)	(344,517,894)	(551,319,557)	1,621,711,928	725,873,977
At 30 June 2014				
Total financial assets	1,853,472,163	245,797,713	1,700,381,776	3,799,651,652
Total financial liabilities	1,264,931,711	1,318,714,036	647,572,128	3,267,757,912
Net excess liquidity/ (liquidity gap)	588,540,452	(1,072,916,323)	1,052,809,648	531,893,740

The accompanying notes are an integral part of the financial statements.

(iii) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risk rests with the Board of Directors. The President is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day to day implementation of those policies.

a) Currency risk

Foreign exchange risk results from changes in exchange rates between a bank's domestic currency and other currencies. Foreign exchange risks are controlled by maintaining balances in major currencies whose exchange rates against the reporting currency have always been appreciating. The Bank settles foreign exchange transactions of customers at the exchange rate prevailing on the date of the transactions. Hence, customers bear the cost of any increase in the exchange rates. Exchange rates are controlled by the National Bank of Ethiopia and do not fluctuate significantly.

The bank operates wholly within Ethiopia and its assets and liabilities are reported in the local currency. The bank's currency risk is managed within the National Bank of Ethiopia exposure guidelines of 15 % of core capital.

The exchange rates used for translating the major foreign currency balances as at year end were as follows:

	2015	2014
US Dollar	20.5659	19.5771
GB Pound	32.2823	33.3261
Euro	22.8528	26.6562

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 30 June 2015 and 30 June 2014. Included in the table are the Bank's financial instruments, categorized by currency that are subject to foreign currency exposure.

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At 30 June 2015	ETB	USD	GBP	Euro	SEK	Others	Total
Financial Assets							
Cash and bank balances	706,405,740	109,374,241	28,045,919	305,277,980	5,157,774	66,593	1,154,328,247
Financial liabilities							
Customer deposits	3,551,286,640	24,120,684	148,912,830	95,134,298	-	-	3,819,454,452
Margins held	88,886,280	-	-	-	-	-	88,886,280
	3,640,172,920	24,120,684	148,912,830	95,134,298	-	-	3,908,340,732
Net foreign currency exposure	(2,933,767,180)	85,253,557	(120,866,911)	210,143,682	5,157,774	66,593	(2,754,012,485)
At 30 June 2014							
Net foreign currency exposure	(1,863,594,697)	219,199,494	1,983,989	15,367,037	4,574,538	-	(1,622,469,639)

Foreign currency risk stress test

The table below summarizes the estimated impact of a 10% decline/appreciation of the Ethiopian Birr against the three major currencies traded by the Bank i.e. US Dollar, British Pound and Euro.

	2015	2014
10% appreciating/ depreciation of the Ethiopian Birr	8,600,121	6,533,409

The accompanying notes are an integral part of the financial statements.

b)Interest rate risk

Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Bank's interest margin or the value of its net worth. The Bank often revises its lending rate across segments of the credit portfolio based on the changes in the cost of funds, reserve requirements and the perceived risk in each credit portfolio segment to keep the overall profitability.

The asset and liability management committee is responsible for managing rate-sensitive assets and liabilities and the effects of rate, volume and mix changes in order to preserve and optimize the interest return.

The impact that an immediate hypothetical increase or decrease in interest rates of 10% applied at the beginning of the year would have on the profit for the year assuming a growing balance sheet and current interest rate risk profile would be as follows:

	2015	2014
10% increase in interest rates	12,586,229	10,643,600
10% decrease in interest rates	(12,586,229)	(10,643,600)

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

32 . CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

(a) Contingent liabilities

In the ordinary course of business, the Bank conducts business involving guarantees and acceptances. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

Letters of credit	244,641,408	315,778,016
Letters of guarantee and performance bonds	23,611,910	14,768,345
Pending law suits	38,875,672	34,211,115
	307,128,990	364,757,476

Letters of credit commit the bank to make payments to third parties, on production of documents, and the amounts are subsequently reimbursed by customers.

(b) Letters of guarantee

Letters of guarantee are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

The pending lawsuits relate to claims by customers and former employees against the bank in the normal course of business. The amounts claimed have not been provided in the financial statements since the directors, based on advice received from the bank's legal advisors, are of the opinion that no significant claims will crystallise.

The bank holds collateral, letters of undertaking or other security in respect of the guarantee issued.

	2015	2014
Other commitments		
Undrawn loans and advances	626,587,622	266,243,090
Capital expenditure approved but not incurred	12,718,803	14,690,110
	639,306,425	280,933,200

(c) Memorandum accounts

This relates to off balance sheet items as follows:

IBC	62,615,593	77,304,241
Foreign Bank Cheques on collection (OBP)	6,786,034	11,001,051
Export cash against document (ODBP)	1,115,494	-
Accrued interest on loans under litigation and non-performing loans	38,921,352	28,141,599
	109,438,473	116,446,891

33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Loans and advances at 30 June	8,493,428	12,331,111
Customers' deposits at 30 June	4,504,991	1,583,451
Interest income for the year	495,258	825,975
Interest expense for the year	116,375	73,436

Key management compensation

Directors' remuneration:		
Allowances (charged to profit and loss account)	190,000	206,000
Board of directors remuneration	411,918	450,000
	601,918	656,000

Annual Board compensation is determined and approved at the Annual General meeting of the shareholders of the Bank. Zemen Bank made an accrual of 50,000 for each director according to NBE Directive No. SBB/49/2011 that states annual board compensation shall not exceed Birr 50,000. The Bank also paid a maximum of Birr 2,000 monthly allowance to each director according to the above directive.

34 RETIREMENT BENEFIT OBLIGATIONS

Staff retirement benefits are provided to some permanent employees by way of a provident fund to which the Bank and these employees contribute 15% and 7% of the individual monthly salaries, respectively. Other employees are included in a statutory pension scheme to which the Bank and these employees contribute 11% and 7% of the individual monthly salaries, respectively. For the year ended 30 June 2015 the Bank contributed ETB 6,774,105 (30 June 2014 - ETB 4,602,914) which has been charged to the profit or loss.

35 EVENTS AFTER THE REPORTING PERIOD

No significant post balance sheet events have come to the attention of the Directors that require disclosure in the financial statements.

36 PROPOSED DIVIDENDS

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. The dividend proposal to be presented to the Annual General meeting had not been determined at the date of approval of these financial statements.

37. CURRENCY

The financial statements are presented in Ethiopian Birr (ETB)

National Bank
B00069995
2003
100
100
Zemen BANK
CLUB
0000 1234 0000 1234
ABCD EFGH IGKL
gift
card
Q-Link
payroll
card
paid
card

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