



## ANNUAL REPORT 2014



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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.



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የአለም አቀፍ ሺዛ ካርዶች **VISA** ዘና ብለው በዘመን ባንክ ይጠቀሙ... ለስጦታ፣ ለደብዳቤ ለቅድመ ክፍያ የሚውሉ አዳዲስ የካርድ ግልጋሎቶቻችንንም ይሞክሩ!!

Welcoming all VISA card holders ....

Zemen Bank ATMs now accept VISA cards, thus conveniently tying you up with your local bank account wherever it may be. Also available from Zemen Bank ... pre-paid gift cards for your ease and convenience throughout Ethiopia.



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ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2014  
In Ethiopian Birr

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 9% and 7% of the individual monthly salaries, respectively. For the year ended 30 June 2014 the Bank contributed Birr 4,602,917 (30 June 2013 - Birr 2,923,883) 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 (Birr)

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

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#### 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



**Dr. Berhane Ghebray**  
Board Chairman



**Tamiru WondimAgegnehu**  
Board Deputy Chairman



**Abera Degefa**  
Board Director



**Dr. Asmamaw Kelemu**  
Board Director



**Emebet Dejene**  
Board Director

**Kbreab Afework**  
Board Director



**Neway Berhanu**  
Board Director



**Ato Solomon Afferou**  
Board Director



**W/ro Tarik Kassa**  
Board Director

ZEMEN BANK S.C.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

In Ethiopian Birr

(b)Other commitments	2014	2013	2012
Undrawn loans and advances	266,243,090	250,522,296	82,745,461
Subscribed shares in Premier Switch Solutions			
Share Capital not yet paid up	-	-	3,772,000
Capital expenditure approved but not incurred	14,690,110	1,233,556	4,148,541
	<u>280,933,200</u>	<u>251,755,852</u>	<u>90,666,002</u>

### (c) Memorandum accounts

This relates to off balance items as follows:

IBC	77,304,241	141,952,958	126,016,657
Foreign Bank Cheques on collection (OBP)	11,001,051	11,803,968	587,567
Export cash against document (ODBP)	-	-	25,996,607
Accrued interest on loans under litigation and non-performing loans	28,141,599	13,034,075	1,159,244
	<u>116,446,891</u>	<u>166,791,001</u>	<u>153,760,075</u>

### 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.

	2014	2013	2012
Loans and advances at 30 June	12,331,111	15,607,387	10,160,000
Customers' deposits at 30 June	1,583,451	149,286	1,650,421
Interest income for the year	825,975	461,177	282,203
Interest expense for the year	73,436	113,494	13,571

Key management compensation

	2014	2013	2012
Directors' remuneration:			
Allowances (charged to profit and loss account)	206,000	190,000	178,000
Board of directors remuneration	<u>450,000</u>	<u>415,000</u>	<u>383,333</u>
	<u>656,000</u>	<u>605,000</u>	<u>561,333</u>

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

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2014	2013	2012
10% increase in interest rates	<u>10,643,600</u>	<u>8,796,657</u>	<u>4,940,771</u>
10% decrease in interest rates	<u>(10,643,600)</u>	<u>(8,796,657)</u>	<u>(4,940,771)</u>

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:

	2014	2013	2012
Letters of credit	315,778,016	311,955,871	438,332,885
Letters of guarantee and performance bonds	14,768,345	22,619,022	67,843,857
Pending law suits	<u>34,211,115</u>	<u>32,094,740</u>	<u>3,071,713</u>
	<u>364,757,476</u>	<u>366,669,633</u>	<u>509,248,455</u>

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

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

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

**SENIOR MANAGEMENT**



**Tsegay Tetemke**  
President / CEO



**Ermias Eshetu**  
Vice President  
Marketing &  
Corporate Services



**Helaway Tadesse**  
Senior Vice President



**Sebhaw Belayneh**  
Vice President  
Finance &  
International  
Banking



**Adamseged Belay**  
Legal Counsellor



**Elias Kinfegebriel**  
Manager HR &  
Support Services



**Aduugna Mekonnen**  
Manager New  
Business Development,  
Planning & Research



**Firehiwot Birke**  
Manager  
Main Branch



**Meseret Wondim**  
Manager  
Internal Audit



**Nebyou Tekola**  
Manager Domestic  
Banking Operations



**Shimelis Legesse**  
Core Banking  
Application &  
Administration



**Gadissa Mamo**  
Manager Finance



**Solomon Mamo**  
Manager Credit



**Tesfaye Boru**  
Manager Risk &  
Portfolio Management



**Tesfaye Salilew**  
Manager  
Infrastructure  
& Channel  
Management





# CHAIRMAN'S STATEMENT

Year ended 30 June 2014

It is with great pleasure that I present to you the 2013/14 Annual Report of Zemen Bank. Despite some challenges, I am pleased to report that the fiscal year has been concluded with Zemen Bank's profits reaching the highest levels since the Bank's founding over five years ago. As before, this result reflects extensive work done to satisfy the demanding needs of major corporate customers and of many retail clients with similarly high standards and high expectations. We believe the Bank has gone a long way to meet or exceed such expectations, even while we strive for continued improvements in our ability to provide tailored banking products, technology-based service channels, and top customer service.

As in recent years, the macroeconomic setting in 2013/14 was conducive for banking activities in most respects. Strong GDP growth, low inflation, and the on-going execution of large-scale projects in road-building, construction,

"With respect to Zemen Bank's financial results... I am pleased to report a continuation of the many positive trends seen in recent years"

power, and transport have all stimulated economic activity and generated high demand for banking services. Like others, our Bank has benefited from this dynamic macroeconomic environment, with growing customer deposits, increasing loan demand, and rising requests for trade facilities. In a few areas where macroeconomic targets fell short of national expectations, such as in the performance of Ethiopia's exports (up only 5 percent from the year before), the Bank encountered a corresponding slowdown in the growth rate of its foreign exchange resources but still registered higher inflows than the year before.

With respect to Zemen Bank's financial results, though growth rates in some areas fell short of



PERSONAL BANKING



## ZEMEN BANK S.C. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 In Ethiopian Birr

At 30 June 2014	Birr	USD	GBP	Euro	SEK	JPY	Total
<b>Financial Assets</b>							
Cash and bank balances	1,021,710,659	347,396,733	4,761,227	115,321,860	4,574,538	-	1,493,765,017
<b>Financial liabilities</b>							
Customer deposits	2,799,941,403	128,197,239	2,777,238	99,954,823	-	-	3,030,870,703
Margins held	85,363,953	-	-	-	-	-	85,363,953
	<u>2,885,305,356</u>	<u>128,197,239</u>	<u>2,777,238</u>	<u>99,954,823</u>			<u>3,116,234,656</u>
Net foreign currency exposure	(1,863,594,697)	219,199,494	1,983,989	15,367,037	4,574,538	-	(1,622,469,639)
<b>At 30 June 2013</b>							
Net foreign currency exposure	(2,100,125,001)	249,892,644	(2,185,997)	24,153,006	2,266,218	855,854	1,825,143,276
<b>At 30 June 2012</b>							
Net foreign currency exposure	(1,440,165,867)	365,058,461	7,073,781	20,189,334	3,007,843	3,422,943	1,041,413,505

### 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.

	2014	2013	2012
10% appreciating/ depreciation of the Ethiopian Birr	6,533,409	2,468,101	2,951,707

### 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:

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

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2014

In Ethiopian Birr

	Up to 3 months	3-12 months	Over 1 years	Total
<b>At 30 June 2014</b>				
<b>FINANCIAL ASSETS</b>				
Cash and bank balances	1,493,765,017	-	-	1,493,765,017
Government securities	-	-	947,081,887	947,081,887
Loans and advances	325,384,374	235,945,765	748,268,889	1,309,599,028
Other assets	34,322,772	9,851,948	-	44,174,720
Investments in equity shares	-	-	5,031,000	5,031,000
	<u>1,853,472,163</u>	<u>245,797,713</u>	<u>1,700,381,776</u>	<u>3,799,651,652</u>
<b>FINANCIAL LIABILITIES</b>				
Customer deposits	1,070,632,189	1,318,714,036	641,524,478	3,030,870,703
Due to financial institutions	2,258,956	-	-	2,258,956
Other liabilities	106,676,613	-	-	106,676,613
Margins held	85,363,953	-	-	85,363,953
Profit tax payable	-	36,540,037	-	36,540,037
Finance lease obligation	-	-	6,047,650	6,047,650
	<u>1,264,931,711</u>	<u>1,318,714,036</u>	<u>647,572,128</u>	<u>3,227,217,875</u>
Net excess liquidity/ (liquidity gap)	<u>588,540,452</u>	<u>(1,072,916,323)</u>	<u>1,052,809,648</u>	<u>568,433,777</u>
<b>At 30 June 2013</b>				
Total financial assets	1,278,861,897	222,924,420	1,677,960,476	3,179,746,793
Total financial liabilities	1,233,580,274	958,442,944	562,947,650	2,754,970,868
Net excess liquidity/(liquidity gap)	<u>45,281,623</u>	<u>(735,518,524)</u>	<u>1,115,012,826</u>	<u>424,775,925</u>
<b>At 30 June 2012</b>				
Total financial assets	1,193,380,036	169,700,840	965,407,226	2,328,488,102
Total financial liabilities	992,201,930	924,576,243	196,800,000	2,113,578,173
Net excess liquidity/(liquidity gap)	<u>199,178,106</u>	<u>(754,875,403)</u>	<u>768,607,226</u>	<u>212,909,929</u>

**(iii) Market risk**

**a) Foreign exchange 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 table below summarises the Bank's exposure to foreign currency exchange rate risk at 30 June 2014, 30 June 2013 and 30 June 2012. Included in the table are the Bank's financial instruments, categorized by currency that are subject to foreign currency exposure.

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

our high expectations, I am pleased to report a continuation of the many positive trends seen in recent years. The two key resources driving banking operations—deposits and foreign exchange inflows—have both recorded increases during the year, with deposits up 22 percent (slightly above the industry average) and foreign exchange inflows up 8 percent (again slightly higher than the nationwide export growth rate). The growth in lending was more modest, reflecting a comprehensive restructuring of our credit systems and a deliberate cut back in exposure to certain loan categories (such as long-term loans); fortunately, the slow growth in the bank's loan portfolio did not adversely affect our interest income targets as compensating measures were taken by placing unused funds into other interest-earning assets. The Bank has continued its intense follow-up work towards the resolution of non-performing loans, but progress in resolving the few large cases carried over from earlier years has been much slower than expected, owing to external factors and lengthy legal deliberations. Still, efforts to recover assets in these few NPL cases are being pursued with full force this year, to allow for a reversal of past provisions and an add-back to the Bank's income. In a very positive development, the Board of Directors is pleased to report that net new NPL creations have been strictly and successfully controlled this past fiscal year outside the few large arrears cases that were carried over from previous years.

Beyond financial figures, I am also pleased to report that FY 2013/14 has been a year when Zemen Bank put itself in more places than ever before. Our Bole Banking Center was launched this past fiscal year, providing both a second convenient physical outlet for customers in Addis Ababa as well as much needed new office space for several administrative departments. Besides our facilities in Addis Ababa, you will now also find us in Adama, Dire Dawa, and

Hawassa. We are expanding our physical reach through steady and strategically selected expansions that do not deviate from our past model of carefully limited physical service points that are complemented by alternative service delivery channels such as ATMs, Internet Banking, POS devices, Mobile Banking, and Doorstep Banking.

For the year ahead, and following on a mid-point review of the Bank's Strategic Plan conducted this past year, we will be intensifying our work in several areas where we believe we can do even better than the record registered so far—including with respect to mobilizing deposits, raising loan disbursements, deploying product innovations, and ensuring world-class customer service. As before, we will not stray from the strategic approach that has served us well thus far: to focus mainly on corporate clients, to offer technologically-driven banking services that rely on multiple service delivery channels, and to distinguish ourselves through exceptional customer service.

To conclude, in marking the satisfactory results registered this past year, 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. And I also extend my best wishes to us all for the coming year.



Dr. Berhane Ghebray  
Chairman of the Board  
Zemen Bank

**Personal Banking**

As a Zemen Bank Personal Banking customer, you will earn an interest rate of 5.5% compared to the 5.0% interest rate currently offered in the market. To qualify, a minimum monthly balance of Birr 25,000 is required.

**45%** AVERAGE ANNUAL EARNINGS PER SHARE OVER PAST 5 YEARS

**39M** BIRR WITHDRAWN FROM ATMS EVERY MONTH

**4100** INTERNET BANKING USERS EVERY MONTH

**\$287M** IN FOREX INFLOWS

**36%** PROFIT INCREASE

**1,130** EXPORT IMPORT TRANSACTIONS PER MONTH

**1.4B** LOANS TO CUSTOMERS

**3.0B** DEPOSITS MOBILIZED

**947 M** GOVERNMENT BILLS PURCHASED

**22%** DEPOSIT INCREASE FROM PREVIOUS YEAR

**37M** TAXES PAID

**127M** BIRR FROM VISA CARD USERS

**213,470** CUSTOMER TRANSACTIONS DURING THE YEAR

**8%** FOREIGN EXCHANGE INCREASE FROM PREVIOUS YEAR

**13,000** EMPLOYEES USING PAYROLL SERVICES

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(a) Advances to customers- gross

	2014	%	2013	%	2012	%
Import	253,391,187	17.72	190,471,393	13.91	200,356,330	19.78
Domestic trade and services	177,902,469	12.44	156,203,725	11.40	78,562,787	7.76
Manufacturing	204,540,093	14.30	128,219,913	9.36	110,239,492	10.89
Export	322,639,821	22.56	429,248,633	31.34	324,279,971	32.02
Building construction	191,559,872	13.40	206,120,225	15.05	97,571,747	9.63
Emergency staff loans	70,902,582	4.96	45,792,270	3.34	26,372,541	2.60
Transport	47,209,310	3.30	53,606,408	3.91	67,380,959	6.65
Personal	68,743,209	4.81	58,103,510	4.24	33,127,199	3.27
Agriculture	36,090,063	2.52	18,381,354	1.34	5,115,082	0.51
Hotel and tourism	44,315,626	3.10	57,967,693	4.2	54,008,637	5.34
Financial institution	11,100,631	0.78	21,331,681	1.56	10,403,608	1.04
Mines, power and water resource	1,564,777	0.11	4,207,867	0.31	5,272,230	0.52
	<u>1,429,959,640</u>	<u>100</u>	<u>1,369,654,672</u>	<u>100</u>	<u>1,012,690,583</u>	<u>100</u>

**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 2014, 30 June 2013 and 30 June 2012.

**(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.

**Contractual maturities of assets and liabilities**

The maturity profile of assets and liabilities based on the remaining periods at 30 June 2014 was as follows:

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





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2013				
Neither past due nor impaired (Pass Loan)	1,167,691,347	11,173,489	1,156,517,857	92%
Past due but not impaired (Special Mention)	86,798,399	2,603,952	84,194,447	7%
Impaired (NPL)	115,164,926	102,951,411	12,213,515	1%
	<u>1,369,654,672</u>	<u>116,728,852</u>	<u>1,252,925,820</u>	<u>100%</u>
2012				
Neither past due nor impaired (Pass Loan)	803,089,316	8,030,894	795,058,422	80%
Past due but not impaired (Special Mention)	185,905,248	5,577,157	180,328,091	18%
Impaired (NPL)	23,696,019	4,524,212	19,171,807	2%
	<u>1,012,690,583</u>	<u>18,132,263</u>	<u>994,558,320</u>	<u>100%</u>

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 categorized as pass accounts in line with National Bank of Ethiopia (NBE) directives and a provision at 1 % is made through profit or loss.

**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 categorized 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 categorized 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.

**Concentrations of risk**

The bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

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

**SHAREHOLDERS' MEETING** (September 21, 2013)



**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.

# DIRECTORS' REPORT

Fiscal Year 2013/14

Zemen Bank's Board of Directors is pleased to present the 2013/14 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 2013/14 year by recording the highest revenue and profit levels since the Bank's founding over five years ago. Thanks to the expansion seen in multiple banking segments, the Bank's pre-tax profits reached Birr 165.0 million, reflecting gross revenue of Birr 455.1 million that was offset by Birr 290 million in interest and other expenses. Profit-after-tax rose 36 percent from Birr 94.1 million to Birr 128.4 million, compared to a growth of just 9 percent in the previous fiscal year.

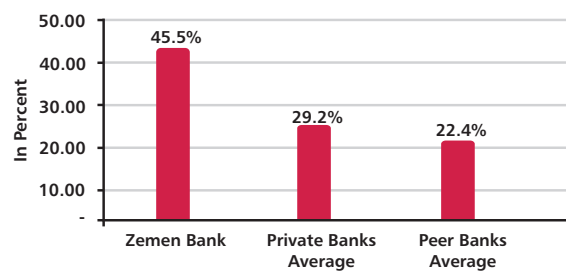
The Bank's profit performance continues to show a satisfactory rate of return when measured against our capital and our total assets. The Bank's net profit after tax result of Birr 128.4 million translates into a return on average equity of 26.1 percent as well as a return on average assets of 3.6 percent. Expressed relative to the paid-up capital of our shareholders, which averaged Birr 400 million during the year, the net income outturn is equivalent to an earnings per share of 32 percent. By way of comparison, as of June 2014, the estimated return on average equity among Ethiopia's private banks was 19.3 percent while the return on average assets was 2.9 percent;

the corresponding figures among Zemen Bank's peer banks were 17.9 percent and 3.2 percent respectively. With earnings per share averaging 45 percent per year during the past five full fiscal years that the Bank has been in operation, the profit performance of Zemen Bank shows a strong overall track record.

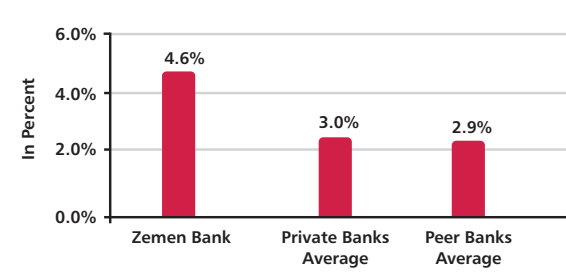
Zemen Bank's results continue to be supported by a distinctive business model that is focused on corporate clients and technologically-driven banking services delivered via multiple channels (such as ATMs, Internet Banking, POS terminals, Foreign Exchange Bureaus, and Banking Kiosks). This business model 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 (excluding interest and provision deductions) of Birr 455 million during the year, a 12 percent increase from the previous fiscal year's outturn of Birr 405 million. The two largest revenue sources for the bank are interest income on our loans (Birr 205.4 million or 45 percent of total revenue) and fees derived mainly from trade operations (Birr 158.6 million or

Earning Per Share: Five-Year Average GRAPH 1



Return on Assets: Five - Year Average GRAPH 2



ZEMEN BANK S.C.

## NOTES TO THE FINANCIAL STATEMENTS

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### Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents the maximum credit risk exposure on monetary financial assets to the bank at 30 June 2014, 30 June 2013 and 30 June 2012, without taking into account any collateral held or other credit enhancements attached.

	2014	2013	2012
Government securities held to maturity	947,081,887	1,067,549,387	465,511,387
Deposits and balances due from banking institutions			
- Local Currency	888,405,173	183,376,197	257,813,806
- Foreign Currency	466,471,657	410,845,486	473,193,189
	<u>1,354,876,830</u>	<u>594,221,683</u>	<u>731,006,995</u>
Loans and advances to customers (note 15)	1,429,959,640	1,369,654,672	1,012,690,583
	<u>3,731,918,357</u>	<u>3,031,425,742</u>	<u>2,209,208,965</u>

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.

### Classification of loans and advances

	Gross amounts	Impairment allowances	Net amounts	%
<b>2014</b>				
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%
	<u>1,429,959,640</u>	<u>126,277,520</u>	<u>1,303,682,120</u>	<u>100%</u>

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





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**31. RISK MANAGEMENT OBJECTIVES AND POLICIES**

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 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**

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.

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

35 percent of total revenue). A third revenue source, gains from foreign exchange related operations, provided Birr 90.5 million or about one-fifth of total revenues. The Bank's revenue structure is becoming increasingly more diversified and less susceptible to a slowdown in any one particular line of activity such as credit or international banking. Moreover, even within our credit and international banking operations, our revenue sources have become spread out over a steadily expanding pool of corporate and individual customers.

**Expenditure:** The Bank's operational expenses were dominated by spending on interest payments (Birr 114.5 million), administrative items including rent (Birr 57.9 million), salaries and benefits (Birr 49.5 million), and depreciation and amortization (Birr 13.0 million). The Bank has set aside a loan provision expense of Birr 55.5 million, a large share of which is to provide full provision coverage on two large loan cases for which legal recovery efforts are on-going but not yet completed. 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) was kept low at 35 percent during FY 2013/14.

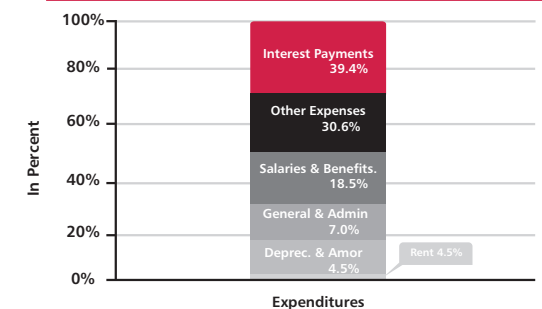
**Balance Sheet:** The Bank's balance sheet expanded by 22 percent during the year, rising from Birr 3.2 to just under 4.0 billion. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits (Birr 3 billion) and shareholder funds (Birr 450 million). The counterpart to these funds collected from customers and shareholders are four main assets: loans and advances after provisions (Birr 1.3 billion); NBE Bills (947 million); deposits at

local banks and NBE (Birr 877 million); and foreign exchange deposits at foreign banks (Birr 466 million). The Bank maintains one of the highest capital ratios in the industry, with a capital adequacy ratio of 37 percent of risk-weighted assets, or more than four times the regulatory requirement. Moreover, in line with our prudent liquidity management practices, the Bank's liquidity ratio (liquid assets to total assets) was well above the regulatory requirement of 20 percent throughout the year and stood at near 38 percent at end-June 2014.

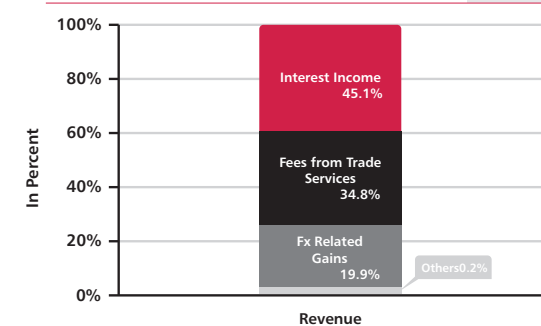
**Dividend Payout Proposal**

Based on the financial results of the fiscal year, Birr 95.8 million has been transferred to retained earnings reflecting several notable deductions to the Bank's pre-tax profits. First, reflecting a 22 percent effective tax rate (due to several tax-exempt earnings such as interest on NBE Bills), a tax deduction of Birr 36.6 million reduces the net profit after tax to Birr 128.4 million. This figure, in turn, is subject to two deductions on account of Legal Reserves (Birr 32 million) and Directors remuneration (Birr 0.4 million). The remaining figure amounts to Birr 95.8 million

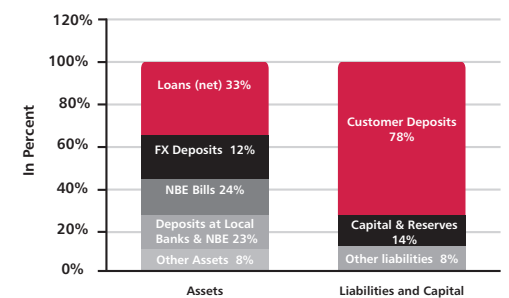
Expenditure Structure GRAPH 4



Revenue Structure GRAPH 5



Composition of Assets and Liabilities GRAPH 6



**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.

... DIRECTORS' REPORT CONTINUED

and is the sum transferred to retained earnings in FY 2013/14. 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**

Although the growth rates of key indicators moderated this past fiscal year, Zemen Bank continued to show positive growth in the three main areas of commercial banking operations—collecting deposits, providing loans, and securing the foreign exchange funds needed to facilitate trade related services.

**Deposits:**

Zemen Bank boosted its deposit base by 22 percent, with total deposits mobilized reaching Birr 3.0 billion at end-June 2014 from Birr 2.5 billion a year earlier. The registered growth rate of 22 percent is slightly above the 21 percent overall deposit growth rate seen at private banks, indicating that Zemen Bank has held on to its deposit market share during the fiscal year. 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. The average size of a deposit at Zemen Bank

(approximately Birr 183,000) continues to be several multiples of the norm seen at other private banks, in line with our distinctive business model. Also in line with our model, corporate deposits continue to make up the majority (nearly two-thirds) of the deposit base, although retail deposit accounts have also shown strong double-digit growth during the year. The composition of deposits has moved in line with the Bank's strategic objectives: long-term deposits in the form of CDs are now less than 5 percent of total deposits (versus 34 percent three years ago), while the share of savings deposits and checking deposits are 65 percent and 31 percent respectively. The higher share of checking deposits together with the reduction in time deposits are favorable developments that have helped control the Bank's interest costs.

**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 phone banking services. To provide a snapshot of our activities in these multiple service delivery channels:

- Our **Main Branch** has shown moderate growth in activity, driven by a 14 percent increase in the number of deposit accounts at the Bank last year. In line with the rising number of accountholders, the Bank registered a similar 13 percent growth in cash and cheque

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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:

- 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
- As per NBE directive, the Commercial Banks are required to maintain a capital to risk weighted assets ratio of 8% at all time

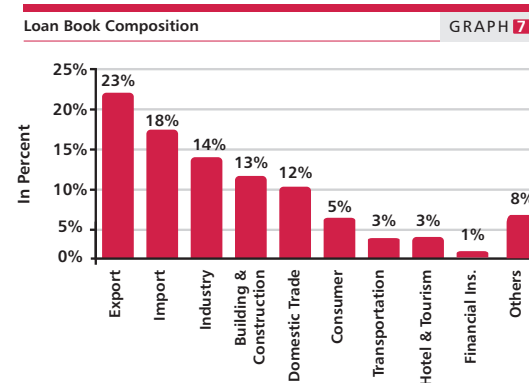
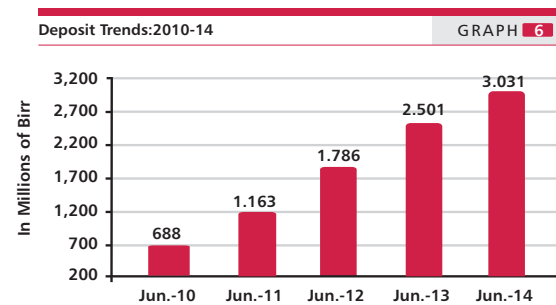
The bank is also required to maintain a legal reserve which is a statutory reserve to which no less 25% of the net profits after taxation shall be transferred each year until such fund is equal to the capital. When the legal reserve account equals the capital of the bank, the amount to be transferred 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 2014 and 30 June 2013. 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.

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





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**29. NOTES TO THE STATEMENT OF CASH FLOWS**

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

	2014	2013
Profit before taxation	165,017,423	123,810,854
Depreciation and amortization (note 20 and 21)	13,078,182	14,070,690
Provision for impairment losses on loans and advances (note 16)	9,548,668	98,596,589
Acquired property	324,652	(7,541,625)
Loss on disposal of property, plant and equipment	39,202	-
Working capital changes:		
Balances with National Bank of Ethiopia		
- Cash ratio requirement	(22,104,000)	45,104,000
Loans and advances to customers	(60,304,968)	(356,964,089)
Purchase of Government securities	120,467,500	(602,038,000)
Other assets	(31,007,706)	(10,080,444)
Customer deposits	530,207,819	714,385,552
Other liabilities	991,080	(98,585,112)
Margins held on letters of credit	(23,754,246)	28,703,854
Cash generated from/(used in) operating activities	<u>702,503,606</u>	<u>(50,537,731)</u>

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

Cash on hand (note 13)	138,888,187	190,416,123
Balances with National Bank of Ethiopia (note 13)	394,176,845	39,200,879
Placements and balances due from banking institutions		
- Domestic banks (note 13)	339,228,328	11,279,318
- Foreign banks (note 13)	466,471,657	410,845,486
Deposits due to banking institutions (note 23)	<u>(2,258,956)</u>	<u>(4,263,658)</u>
	<u>1,336,506,061</u>	<u>647,478,148</u>

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.

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

transactions at our branch during the year. Total customer transactions reached a record high of 213,470 during the year, equivalent to around 700 customer transactions on a typical business day.

- Our **Bole Banking Center** was launched in early 2014, providing both a second convenient physical outlet for customers in Addis Ababa as well as much needed new office space for several administrative departments. As before, we have ensured our bank-in-comfort ethos remains firmly in place and the Bole Banking Center's offerings match those at our Main Branch, including convenient teller services, personal bankers, and a dedicated Z-Club floor. In addition, Credit and International Banking document acceptance and processing services are now offered at this location.
- **Regional Banking Centers** in several of the largest cities outside Addis Ababa have also been opened in the past fiscal year. The first such banking center was inaugurated at Hawassa in January 2014 and two other locations have started operations just after the close of the fiscal year at Adama and Dire Dawa. As before, smaller outlets continue offering services at six additional locations, including those dedicated to specific corporate customers (e.g., Embassy of Sweden, Embassy of the Netherlands, Sher Ethiopia PLC, and Emirates Airlines) as well as those serving 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 11 locations.
- Our **ATMs** continue to be a highly utilized banking channel for our customers with about Birr 1.3 million cash withdrawals and 1,000 users on a typical day. Over the year, Birr 471 million has been withdrawn from our ATMs, or an average of Birr 39 million in cash withdrawals per month, up 18 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.

- Our **Internet banking** facilities are utilized by around 140 users times every single day, or about 4,100 times per month, providing a very convenient channel to our corporate and personal clients. Internet usage has grown by 50 percent over the past two fiscal years. Since its launch, our customers have accessed our internet banking facilities over 130,000 times to fulfill their banking needs, including for payroll purposes and for electronic fund transfers to other accounts.
- 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. Close to 1,600 Doorstep Banking related trips involving transactions totaling Birr 605 million (up 33 percent from last year), 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 close to near 13,000 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 145 million (up 29 percent from last year) has been paid out as part of our corporate payroll services during the course of the year.

**Credit:**

The Bank's total lending showed modest growth of 4 percent this past fiscal year, with gross loans rising from Birr 1,370 million to Birr 1,430 million. A comprehensive Credit System Review conducted in the first part of the year contributed to the slower pace of loan disbursements as a major re-organization of the

**International Banking**

Zemen Bank, in partnership with several correspondent banks abroad, can offer the full array of international banking services that you require:

- ▶ Import and Export letters of credit
- ▶ Foreign cash and check-related services
- ▶ Remittance services to send/receive funds
- ▶ International wires and transfers
- ▶ Dollar/Euro accounts to eligible savers

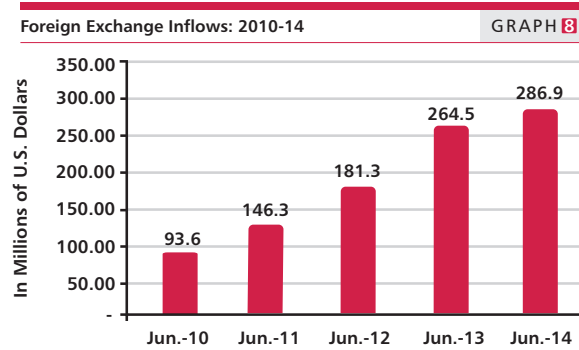
DIRECTORS' REPORT CONTINUED

Credit Department was being put in place. The Credit System Review—involving the Board, Management, plus an international consultant—was finalized in January 2014 and is now under implementation to improve the credit department's internal business processes, administrative arrangements, and appraisal systems. Slow loan growth was also partly attributable to limited market demand for short-term loans (towards which the Bank had to re-orient itself due to regulatory requirements) and the deliberate decision to avoid loans in certain business segments that were judged to be too risky based on the Bank's economic sector assessments. Even with limited loan balance growth, several notable credit related activities nonetheless took place: gross loan disbursements of Birr 1.1 billion were completed during the year (though offset by loan repayments of almost the same amount); the number of loans was increased by 14 percent to 1,298 files; and total loan interest income for the year was raised by 28 percent from Birr 125.8 million in FY 2012/13 to Birr 161.5 million in FY 2013/14, the latter boosted in part by improved net interest margins. Regarding the composition of loans, the largest sub-categories were loans to finance exports (23%), followed by import-related loans (18%), manufacturing sector loans (14%), and Building & Construction loans (13%). As before, Zemen Bank continues to have a high share of its loans devoted to sectors accorded high national priority, such as exports, industry and construction. With respect to loan quality, the Bank's gross NPL ratio has remained at an elevated level of 8 percent as the legal recovery process for a few large borrowers—involving a car assembly plant and a cattle exporter—has been very slow on account of lengthy legal deliberations. Excluding these two loans, the Bank's NPL ratio on the rest of its loan book is only 1.6 percent. Taking a very prudent position, the Bank has set-aside provision funds to cover 100 percent of these two large cases, even while it is still working very diligently to ensure a recovery of funds that can immediately be returned back to the Bank's income account. In what has been a very encouraging and welcome development, net new NPL creations for the fiscal year have been

close to zero outside the few large arrears cases that were carried over from previous years.

International Banking:

International banking services continued to be a significant source of the bank's income, thanks to \$287 million in foreign exchange inflows collected by the Bank during the past year. Foreign exchange inflows averaged \$24 million per month, an increase of 8 percent from the average monthly inflows of the prior fiscal year. The growth rate of foreign exchange inflows has slowed compared to last year, but is slightly above the 5 percent nationwide growth registered in Ethiopia's total exports during FY 2013/14. At current levels of \$287 million per year, we estimate that Zemen Bank's foreign exchange inflows are equivalent to around 18 percent of the country's exports channeled through private banks (as roughly half of the country's USD 3.2 billion in total exports last year is estimated to have been channeled via the state-owned banks). In terms of activity levels, the International Banking Department now processes close to 1,130 export, import, and transfer transactions per month and completed a total of about 13,600 transactions during the course of the year. The Bank has expanded its correspondent banking and RMA relations with 86 banks covering over 35 countries, including active correspondent account relationships with many global financial institutions. Zemen Bank also handles more than 500 non-resident accounts for large foreign investors, embassies, international organizations, and the diaspora.



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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 Birr 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

	2014	2013	2012
Authorised:			
449,576 ordinary shares of Birr 1000 each (2013- 349,576)	449,576,000	349,576,000	149,576,000
Issued and fully paid:			
449,576 shares of Birr 1000 each (2013-343,813)	449,576,000	343,813,000	149,576,000

The movement in share capital is as follows:

	No. of shares	Share capital	Share premium
At 1 July 2011	149,576	149,576,000	425,000
Issue of ordinary shares	-	-	-
At 30 June 2012	149,576	149,576,000	425,000
At 1 July 2012	149,576	149,576,000	425,000
Issue of ordinary shares	194,237	194,237,000	-
At 30 June 2013	343,813	343,813,000	425,000
At 1 July 2013	343,813	343,813,000	425,000
Issue of ordinary shares	105,763	105,763,000	-
At 30 June 2014	449,576	449,576,000	425,000

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.





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	2014	2013	2012
<b>MATURITY ANALYSIS OF CUSTOMER DEPOSITS</b>			
Within three months	1,070,632,189	1,014,962,885	701,777,333
Within 3-12 months	1,318,714,036	928,800,000	887,700,000
Above one year	641,524,478	556,900,000	196,800,000
	<u>3,030,870,703</u>	<u>2,500,662,885</u>	<u>1,786,277,333</u>

The bank applies interest rates in conformity with the NBE directives. The minimum interest rate on saving deposit accounts as at 30 June 2014 as per the directive was 5% (2013- 5%).

**23. DUE TO FINANCIAL INSTITUTIONS**

Payable on demand	1,745	-	-
Dashen Vestro Account	2,257,211	4,263,658	6,605,497
	<u>2,258,956</u>	<u>4,263,658</u>	<u>6,605,497</u>

**24. OTHER LIABILITIES**

Cashier payment orders	72,890,527	70,446,511	57,259,795
Accrual	12,497,767	3,874,714	11,511,534
Miscellaneous	7,253,471	15,006,234	120,407,285
Dividend payable	4,931,859	5,092,610	5,316,263
Exchange payable to National Bank of Ethiopia	4,868,884	6,929,999	7,075,812
Taxes and stamp duty charges	2,411,205	2,444,366	1,450,733
Old drafts outstanding	1,194,173	952,476	-
Directors fee	450,000	415,890	383,333
Pension and similar obligation	178,727	72,734	-
	<u>106,676,613</u>	<u>105,235,534</u>	<u>203,404,755</u>

**25. FINANCE LEASE OBLIGATIONS**

Amounts payable under the lease agreement			
Amount payable within 1 year	-	-	
Amount payable after 1 year	6,047,650	6,047,650	
Total minimum lease payments	<u>6,047,650</u>	<u>6,047,650</u>	
Analysis by cash flow:			
At the beginning of the year	6,047,650	6,047,650	
Financing repaid	-	-	
At the end of the year	<u>6,047,650</u>	<u>6,047,650</u>	

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

**Human Resources and Administration:**

To fully support the growth of the 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 317 to 396 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 17 staff receiving training abroad and 377 staff receiving training domestically 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—remains in place with the aim of making our client services in this area among the best in the industry.

**Risk Management:**

A fully separate Risk Department continues to lead the Bank's work on risk identification, monitoring, and mitigation. With a NBE-approved Risk Management Program in place, the Bank continues the close monitoring of many risk components including credit risk, liquidity risk, market risk, operational risk, and strategic risk. Credit risk has been given particularly close attention this past year to address past sources of risk in this area and to prevent future recurrences. Some of the intensified work undertaken in this respect includes monthly reviews of credit risk, detailed 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 continues to be supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Committee and Loan Review Committee.

**Multi-channel banking services**

Zemen Bank continued its efforts this past year to be an innovative provider of technology-based banking in Ethiopia. Our work in expanding the use of

technology-based banking this year has included the following:

**Broadening usage of our core banking software**

The Flexcube core banking software of Oracle Financial Solutions Services, a world-class provider of banking solutions operating in over 100 countries and 250 financial institutions, has now been deployed at Zemen Bank for several years. As before, its coverage is broadened regularly to cover a widening scope of operational activities. In the just completed fiscal year, the Bank has worked to complete key International Banking related modules and address remaining Credit Module functionalities to enhance the speed, efficiency, and reliability of our main operation units.

**ATMs:**

The Bank's rollout of its ATM network has continued this past year and the Bank now has a total of 40 ATMs. With a further 10 ATMs being purchased shortly, a total of 50 ATMs will be functional by end of this fiscal year. Our ATM service continues to distinguish itself by not charging withdrawal fees for the bank's customers and allows customers the ability to transfer funds from one account to another account via the ATM. Through a collaboration with Dashen Bank under the "Q-Link" network, the first such ATM partnership active in Ethiopia, 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.

**Mastercard:**

After its successful entry into the VISA International network two years ago, Zemen Bank has recently joined the Mastercard payment network. By making available both these large global card networks, our ATMs are now open to a very wide pool of international card users who wish access to local currency funds from the convenience of a local ATM.

DIRECTORS' REPORT CONTINUED

**Internet Banking:**

Zemen Bank's internet banking facility, which is accessed more than 4,100 times on a monthly basis, continues to provide a special level of convenience to both personal and business clients who need to regularly track, print, or download their transaction activity. The Internet Banking service continues to provide customers the ease of being able to make transfers to other accountholders online. Other features of the Internet Banking service include a Corporate Payroll Facility, which allows companies to make use of a payroll payment feature whereby monthly salary deductions are effected online from a company's account and automatically credited to its designated employee accounts. Customers can also view and monitor their loan balances and statements through our internet banking service.

**SMS/IVR Banking:**

As part of our on-going efforts to offer multiple access channels to our customers, Zemen Bank has now completed two phone-based banking services, one of which allows information retrieval via text messages (SMS Banking—available at 8800) while the other allows information retrieval via voice-based prompts at a dedicated phone line (IVR Banking—available at 8700). Our Call Center (011-5501111), whereby a live Zemen Bank agent can be accessed for general or specific queries, also remains in place for the convenience of customers.

**Doorstep Banking:**

We continue to strengthen our Doorstep Banking initiative offered to corporate clients. This service addresses the needs of companies with high daily cash turnover who want a simplified means of depositing and withdrawing funds from their business accounts. With all the relevant logistical, security, and insurance requirements in place, we deliver or pick-up cash from the offices of our corporate clients who are signed up for this service, relieving them of the need to travel to/from our Branch and saving them valuable time to focus on their core business.

**Outlook for the year ahead**

In the year ahead, the Bank will continue to expand the full range of commercial banking services offered since its establishment: providing deposits at attractive interest rates; extending loans for different economic sectors; and offering international banking services linked to the country's export, import, and foreign investment activities. Recovering funds and assets linked to the Bank's non-performing loans will also be a top priority for the year ahead, in order to reverse past provision expenses and thereby allow for income gains this fiscal year. In line with a mid-point review of the Bank's Strategic Plan conducted this past year, we will also deepen further our work in several areas where we believe we can do even better than the record registered so far—including with respect to mobilizing deposits, raising loan disbursements, deploying product innovations, and ensuring world-class customer service. To be more specific on the above and some other planned initiatives, we summarize below highlights of our upcoming work program for the 2014/15 fiscal year:

**Boosting Deposit Mobilization and Loan Disbursements:**

As part of its annual work plan, the Bank has put in place a strong set of internal measures and targets to boost our deposit mobilization and loan disbursement activities in FY 2014/15. Efforts in this area include a stronger marketing effort, smarter use of cross-selling opportunities across bank departments, some administrative re-arrangements, and the more effective deployment of selected deposit mobilization tools. A new Credit Relationship Management Department will also lead our stepped-up efforts to maximize loan disbursements towards high-quality borrowers.

**Two More Regional Banking Centers:**

As initiated last year, our efforts to extend Zemen Bank's distinctive banking services to selected locations outside of Addis Abeba will continue in FY 2014/15. Regional banking centers in two northern locations, Bahr Dar and Mekelle, are to be opened this fiscal year, adding to the Adama, Dire Dawa, and

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**21. LEASEHOLD LAND**

	2014	2013
<b>Present value at inception</b>		
At the beginning of the year	7,559,562	7,559,562
<b>Amortisation</b>		
At the beginning of the year	98,033	-
Current year	125,992	98,033
	<u>224,025</u>	<u>98,033</u>
<b>Net book value</b>	<u>7,335,537</u>	<u>7,461,531</u>

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**

	2014	2013	2012
<b>Payable on demand</b>			
Private sector	675,104,873	444,948,692	296,370,349
Non-resident foreign currency accounts	164,351,529	84,843,668	43,052,141
Retention	45,713,632	32,519,959	27,764,754
Non-resident non-transferable Birr accounts	21,720,249	28,832,508	6,936,536
Non-resident diaspora	17,630,107	18,208,075	11,792,496
Public agencies and enterprises	11,696,357	7,005,159	443,454
Cooperatives and associations	3,499,136	5,647,540	2,227,119
Non-resident transferable Birr accounts	311,113	80,175	-
	<u>940,026,996</u>	<u>622,085,776</u>	<u>388,586,849</u>
<b>Savings deposits</b>			
Private sector	1,828,361,837	1,617,636,057	1,014,078,237
Cooperatives and associations	100,091,134	129,204,167	103,987,351
Provident fund	26,900,919	18,738,315	9,245,683
Public agencies and enterprises	1,137,958	1,664,997	8,501,949
Non-resident repatriable Birr accounts	6,547,030	5,329,282	2,086,601
	<u>1,963,038,878</u>	<u>1,772,572,818</u>	<u>1,137,899,821</u>
<b>Fixed time deposits</b>			
Cooperatives and associations	124,570,786	103,263,142	256,888,161
Public agencies and enterprises	3,234,043	2,741,149	2,902,502
	<u>127,804,829</u>	<u>106,004,291</u>	<u>259,790,663</u>
	<u>3,030,870,703</u>	<u>2,500,662,885</u>	<u>1,786,277,333</u>

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

**Mortgage Loans**



**Corporate Loans**



**Personal Loans**





ZEMEN BANK S.C.  
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**20 (b). INTANGIBLE ASSETS**

<b>COST</b>	Computer software	Capitalized expenditure	SWIFT software	Software Under progress	Total
<b>At 1 July 2011</b>	16,603,943	8,379,290	577,968	4,903,539	30,464,740
Additions	7,616,986	-	-	2,340,296	9,957,282
<b>At 30 June 2012</b>	24,220,929	8,379,290	577,968	7,243,835	40,422,022
<b>At 1 July 2012</b>	24,220,929	8,379,290	577,968	7,243,835	40,422,022
Additions	2,546,821	-	-	3,963,130	6,509,951
<b>At 30 June 2013</b>	26,767,750	8,379,290	577,968	11,206,965	46,931,973
<b>At 1 July 2013</b>	26,767,750	8,379,290	577,968	11,206,965	46,931,973
Additions	-	-	-	5,099,671	5,099,671
<b>At 30 June 2014</b>	26,767,750	8,379,290	577,968	16,306,636	52,031,644
<b>DEPRECIATION</b>					
<b>At 1 July 2011</b>	4,634,957	4,608,609	317,883	-	9,561,449
Additions	4,896,493	1,675,858	115,594	-	6,687,945
<b>At 30 June 2012</b>	9,531,450	6,284,467	433,477	-	16,249,394
<b>At 1 July 2012</b>	9,531,450	6,284,467	433,477	-	16,249,394
Additions	4,309,075	1,675,858	115,594	-	6,100,527
<b>At 30 June 2013</b>	13,840,525	7,960,325	549,071	-	22,349,921
<b>At 1 July 2013</b>	13,840,525	7,960,325	549,071	-	22,349,921
Additions	3,231,806	418,965	28,897	-	3,679,668
<b>At 30 June 2014</b>	17,072,331	8,379,290	577,968	-	26,029,589
Net Book Value					
2014	9,695,419	-	-	16,306,636	26,002,054
2013	12,927,225	418,965	28,897	11,206,965	24,582,052
2012	14,689,479	2,094,823	144,491	7,243,835	24,172,628

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

Hawassa facilities that are already in place. In each of these regional banking centers, we 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.

**Capital Increase to Birr 500 million:**

To support the Bank's on-going operations, and to do so in a measured manner that takes account of latest developments in key financial parameters (deposits, loans, foreign exchange), the Board of Directors will propose a Birr 50,424,000 increase in the capital base at the Annual General Meeting of Shareholders in October 2014. This increase will raise our paid-up capital to Birr 500 million, thereby meeting NBE's minimum requirement for 2016 and providing the Bank with greater flexibility in its lending and foreign exchange operations. As before, existing shareholders will be given the opportunity to contribute towards the capital increase.

**Competitive savings rate:**

Zemen Bank will continue to offer the most competitive savings rate in the industry with its 5.5 percent minimum deposit rate on all accounts above Birr 25,000. The Bank offers even better rates for customers that place higher value deposits at the Bank: 5.6 percent for Prestige Banking savings accounts and a 6.0 percent rate for Z-Club savings accounts. With this interest rate offer, the Bank continues to play its small part in raising the total volume of savings available for investments in the economy as a whole.

**Finalization of Headquarters Design:**

The coming fiscal year will see the continuation and completion of the detailed architectural design work for the Zemen Bank Headquarters and the start of the process of putting out bids for the selection of a building contractor. This project was delayed in FY 2013/14 due mainly to a nine-month period that it took the Municipality to approve vital zoning and title deed related documents. In addition, new city-wide parking requirements put in place required

a modified building design to accommodate the new regulations. A feasibility study of the Building project has been completed, showing net positive long-term benefits for the Bank, while a study on the best financing modalities (delayed so far due to uncertainty about its exact cost) is under preparation for completion by December 2014.

**Deployment of Point of Sale (POS) Terminals:**

The deployment of Point of Sale terminals, though not possible as planned in the just completed fiscal year, is being given priority this fiscal year and should be in place by late 2014. 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 has for the first time allocated a dedicated pool of funds for equity investments this fiscal year, in line with NBE Directives that permit investments of up to 10 percent of a Bank's capital and 20 percent of an investee company's capital. A Board-approved policy framework and procedure is guiding such investments and will be the basis for making a few select investments in well-established and financially-sound businesses. A few such cases are already under early due diligence for potential investments that would be closed before June 2015.

In conclusion, Zemen Bank has in the past year continued to show steady increases in key financial metrics while broadening its outreach via strategically selected expansions within and outside Addis Abeba. With the planned intensification of the Bank's work activities in several operational segments, we expect continued success both in delivering distinctive banking services to our customers and in delivering satisfactory profits and dividends to our shareholders.

# CUSTOMER SNAPSHOTS



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## ZEMEN BANK S.C. NOTES TO THE FINANCIAL STATEMENTS

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20 (a). PROPERTY, PLANT AND EQUIPMENT COST	Motor vehicles	Computers	Office Equipment	Total
<b>At 1 July 2011</b>	9,021,104	16,748,033	13,539,152	39,308,289
Additions	856,941	4,023,365	1,672,303	6,552,609
Disposals	-	(162,259)	(48,966)	(211,225)
<b>At 30 June 2012</b>	<u>9,878,045</u>	<u>20,609,139</u>	<u>15,162,489</u>	<u>45,649,673</u>
<b>At 1 July 2012</b>	9,878,045	20,609,139	15,162,489	45,649,673
Additions	7,052,445	4,043,014	2,025,464	13,120,923
<b>At 30 June 2013</b>	<u>16,930,490</u>	<u>24,652,153</u>	<u>17,187,953</u>	<u>58,770,596</u>
<b>At 1 July 2013</b>	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)
<b>At 30 June 2014</b>	<u>17,915,881</u>	<u>30,832,282</u>	<u>24,078,129</u>	<u>72,826,292</u>
<b>DEPRECIATION</b>				
<b>At 1 July 2011</b>	3,676,995	7,612,248	5,186,237	16,475,480
Additions	1,240,210	3,272,073	1,999,464	6,511,747
Disposals	-	(91,400)	(21,070)	(112,470)
<b>At 30 June 2012</b>	<u>4,917,205</u>	<u>10,792,921</u>	<u>7,164,631</u>	<u>22,874,757</u>
<b>At 1 July 2012</b>	4,917,205	10,792,921	7,164,631	22,874,757
Additions	2,402,657	3,464,808	2,004,665	7,872,130
<b>At 30 June 2013</b>	<u>7,319,862</u>	<u>14,257,729</u>	<u>9,169,296</u>	<u>30,746,887</u>
<b>At 1 July 2013</b>	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)
<b>At 30 June 2014</b>	<u>9,439,066</u>	<u>18,389,822</u>	<u>12,054,808</u>	<u>39,883,696</u>
<b>Net Book Value</b>				
2014	<u>8,476,815</u>	<u>12,442,460</u>	<u>12,023,321</u>	<u>32,942,596</u>
2013	<u>9,610,628</u>	<u>10,394,424</u>	<u>8,018,657</u>	<u>28,023,709</u>
2012	<u>4,960,840</u>	<u>9,816,218</u>	<u>7,997,858</u>	<u>22,774,916</u>

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



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17. INVESTMENT IN EQUITY SHARES	2014	2013	2012
Ethio Switch Share Company			
5,030 shares of Birr 1,000 each par value	5,031,000	5,031,000	1,259,000
	<u>5,031,000</u>	<u>5,031,000</u>	<u>1,259,000</u>
Investments in equity are valued at cost.			
<b>18. OTHER ASSETS</b>			
Prepayments	51,143,097	29,895,613	15,704,768
Interest receivable	20,979,467	11,216,355	9,883,932
Miscellaneous	11,127,628	10,101,648	3,326,116
Stocks	5,293,407	6,199,060	4,022,083
Outward bills purchased	11,001,451	11,803,697	26,584,174
Claim on HO and Branches	1,064,173	385,144	
	<u>100,609,223</u>	<u>69,601,517</u>	<u>59,521,073</u>

**19. 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.

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

## CUSTOMER SNAPSHOTS



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	2014	2013	2012
National Bank of Ethiopia special Time Deposit bearing interest at the rate of 3%	-	134,104,000	-
Treasury bills	-	204,528,500	74,827,500
	<u>947,081,887</u>	<u>1,067,549,387</u>	<u>465,511,387</u>

**15. LOANS AND ADVANCES TO CUSTOMERS**

Export	322,639,821	429,248,633	324,279,971
Import	253,391,187	190,471,393	200,356,330
Building and construction	191,559,872	206,120,225	97,571,747
Manufacturing	204,540,093	128,219,913	110,239,492
Domestic trade	177,902,469	156,203,725	78,562,787
Transport and communication	47,209,310	53,606,408	67,380,959
Hotel and tourism	44,315,626	57,967,693	54,008,637
Agriculture	36,090,063	18,381,354	5,115,082
Personal	68,743,209	58,103,510	33,127,199
Financial Institutions	11,100,631	21,331,681	10,403,608
Mines, Power, and Water Resource	1,564,777	4,207,867	5,272,230
Others	70,902,582	45,792,270	26,372,541
	<u>1,429,959,640</u>	<u>1,369,654,672</u>	<u>1,012,690,583</u>
Less: Provision for doubtful debts and advances	<u>(126,277,520)</u>	<u>(116,728,852)</u>	<u>(18,132,263)</u>
	<u>1,303,682,120</u>	<u>1,252,925,820</u>	<u>994,558,320</u>

**MATURITY OF GROSS LOANS AND ADVANCES (NET OF PROVISIONS)**

**Maturing**

Within three month	325,384,374	209,728,965	272,834,749
Within 3-12 months	262,695,306	215,912,118	166,391,495
Above one year	841,879,960	944,013,589	573,464,339
	1,429,959,640	1,369,654,672	1,012,690,583
Less: Provision for impairment losses	<u>(126,277,520)</u>	<u>(116,728,852)</u>	<u>(18,132,263)</u>
Loans and advances to customers (net)	<u>1,303,682,120</u>	<u>1,252,925,820</u>	<u>994,558,320</u>

**16. IMPAIRMENT LOSS ON LOANS AND ADVANCES**

At the beginning of the year	116,728,852	18,132,263	11,490,735
Provisions in the year	55,476,734	98,596,589	6,641,528
Written off in the year	<u>(45,928,066)</u>	-	-
At the end of the year	<u>126,277,520</u>	<u>116,728,852</u>	<u>18,132,263</u>

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

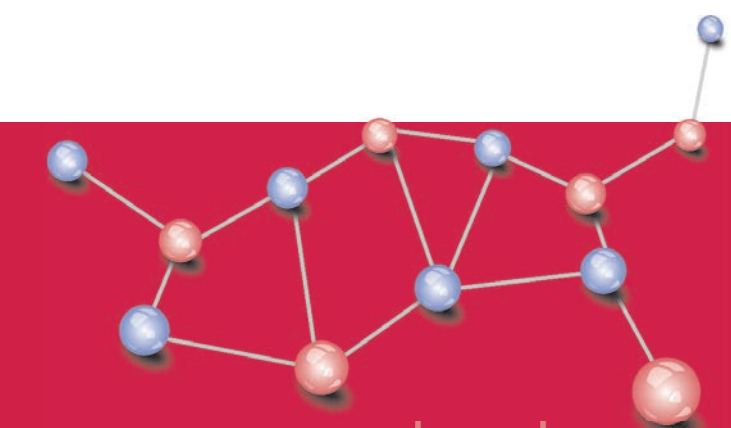


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12. EARNINGS PER SHARE	2014	2013	2012
Profit attributable to owners of the Bank (Birr)	128,405,487	94,145,946	86,372,133
Weighted average number of shares during the year	400,272	229,314	149,576
Earnings per share – Birr	320.80	410.55	577.45

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)	138,888,187	190,416,123	94,271,178
Balances with National Bank of Ethiopia			
- Cash ratio requirement	155,000,000	132,896,000	178,000,000
- Payment and settlement account	394,176,845	39,200,879	66,959,234
Balances with domestic banks	339,228,328	11,279,318	12,854,572
Balances with foreign banks	466,471,657	410,845,486	473,193,189
	<u>1,493,765,017</u>	<u>784,637,806</u>	<u>825,278,173</u>

13.1 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 2014, 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.

13.2 Cash in hand (in the account of Zemen Bank) includes Birr 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.

14. GOVERNMENT SECURITIES	2014	2013	2012
Bills held to maturity at 3% p.a			
- maturing during the year ended 30 June 2016	216,483,887	216,483,887	216,483,887
- maturing during the year ended 30 June 2017	174,200,000	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	-	-
	<u>947,081,887</u>	<u>728,916,887</u>	<u>390,683,887</u>

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



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 / Entrepreneur Haile Gebreselassie

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Q-Link is the one network that serves the largest number of ATM users across Ethiopia. Customers of Dashen Bank, Zemen Bank and those with internationally issued VISA labeled cards can now utilize any of the ATMs with a Q-Link sign appearing on them, providing the convenience of accessing a combined network of more than 100 ATMs in Addis Ababa and beyond.

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11. TAXATION	2014	2013	
<b>(a) Taxation charge</b>			
Current taxation based on the taxable profit for the year at 30%	36,611,936	29,664,908	
<b>(b) Reconciliation of taxation charge to the expected taxation based on accounting profit</b>			
Accounting profit before taxation	165,017,423	123,810,854	
Tax at the applicable rate of 30%	49,505,227	37,143,256	
Tax effect of expenses not deductible for tax purposes:			
Entertainment	189,035	129,196	
Donation	56,250	60,270	
Non-deductible representation	37,505	274	
Tax effect of income taxed at lower rates/exempt for tax purposes:			
Interest income (taxed at source)	(4,195,796)	(367,398)	
Interest income-foreign (taxed at different rate)	(755)	(7,655)	
Interest on National bank of Ethiopia bills (exempt)	(7,677,922)	(5,049,749)	
Interest on treasury bills (exempt)	(1,301,734)	(2,244,562)	
Interest income-foreign (taxed at different rate)	126	1,276	
Taxation charge for the year	<u>36,611,936</u>	<u>29,664,908</u>	
<b>(C) Tax payable</b>			
At the beginning of the year	29,642,944	36,876,243	36,423,320
Taxation charge for the year	36,611,936	29,664,908	36,939,793
Tax paid during the year	(29,642,944)	(36,876,243)	(36,423,326)
Advance profit tax paid	(71,899)	(21,964)	(63,550)
At the end of the year	<u>36,540,037</u>	<u>29,642,944</u>	<u>36,876,243</u>

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

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



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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.





ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 30 JUNE 2014  
 In Ethiopian Birr

	2014	2013
<b>9. OTHER INCOME</b>		
Sundry income	665,354	1,953,839
Gain on disposal of assets	22,150	49,724
Legal fees	18,665	-
	<u>706,169</u>	<u>2,003,563</u>
<b>10. OPERATING EXPENSES</b>		
Salaries and benefits (note 10(a))	53,660,522	35,594,190
Office rent	20,274,164	9,670,559
Depreciation	12,952,190	13,972,656
VISA charges	4,715,636	3,347,817
Licences and inspection fees	6,067,845	4,498,449
IT service provider	2,296,014	746,691
Stationery and printing	1,782,615	1,363,253
Fuel and lubricants	1,394,779	1,028,258
Communications	2,479,931	2,027,645
Insurance	1,282,593	658,577
Advertising and publicity	3,702,789	2,128,973
Repair and maintenance	1,135,777	991,162
Inauguration	1,438,873	1,535,634
Per diems	1,342,725	1,009,856
Sundries	1,180,672	775,992
Bad debt expense	1,021,188	-
Correspondent charges	815,079	794,618
Entertainment	630,113	430,655
Bank service charges	263,197	118,367
Electricity and water	482,637	297,211
Cleaning supplies	527,162	407,743
Audit fees	148,350	155,250
Directors' transport allowance (note 33)	206,000	190,000
Donations and contributions	187,500	200,900
Membership subscription	155,988	78,488
Amortization	125,993	98,033
Loss on disposal of old assets	39,202	-
	<u>120,309,534</u>	<u>82,120,977</u>
<b>10 (a). STAFF COST</b>		
Salary and benefits	49,057,605	32,670,307
Pension and provident fund	4,602,917	2,923,883
	<u>53,660,522</u>	<u>35,594,190</u>

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



## AUDITORS' REPORT

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### 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 00251 (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 [coming soon]

Zemen's Mobile Banking Service to be launched soon 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 require 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 in the manner required by 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 in the manner required by 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.

Berhane Ghebray (Dr.)  
Chairman of the  
Board of Directors

25 September 2014

Tsegay Tetemke  
President/CEO

## ZEMEN BANK S.C. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 In Ethiopian Birr

### 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 fair value through profit and loss. The investments would therefore be measured at fair value not amortised cost.

	2014	2013
<b>5. INTEREST INCOME</b>		
Loans and advances	161,510,306	124,549,736
National Bank of Ethiopia bills- Held to maturity	25,593,074	16,832,498
Deposits with local banks	13,985,985	1,224,660
Treasury bills	4,339,112	7,481,873
Deposits with foreign banks	2,516	25,518
	<u>205,430,993</u>	<u>150,114,285</u>
<b>6. INTEREST EXPENSE</b>		
Interest on savings deposits	106,436,001	87,966,578
Interest on fixed time deposits	7,985,746	12,522,450
Interest on demand deposit	28,890	33,298
	<u>114,450,637</u>	<u>100,522,326</u>
<b>7. FEES AND COMMISSION INCOME</b>		
Service charge-foreign	150,587,785	144,016,293
Balance maintenance fee	2,500,020	2,138,382
Loan processing fee	1,558,128	2,130,598
Commission on VISA	1,637,311	880,547
Service charge-local	1,464,963	808,351
Commission on Cashiers Payment Order	263,915	239,350
Commission Letters of guarantee issued	517,906	901,527
Telephone, telex and fax	37,200	28,749
Fee on prepaid cards	2,070	619
	<u>158,569,298</u>	<u>151,144,416</u>
<b>8. GAINS ON FOREIGN EXCHANGE DEALINGS</b>		

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

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





ZEMEN BANK S.C.  
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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. 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 application of this standard is likely to have an impact on amounts reported in these financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed.

**Early adoption of standards**

The Bank did not early-adopt any new or amended standards in 2014.

**4. CRITICAL ACCOUNTING ESTIMATES AND 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:

*Critical judgements in applying the Bank's accounting policies*

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as discussed below:

*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 statement of comprehensive income, 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 group, 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.

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

# 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 27 to 62 which comprise the statement of financial position as at 30 June 2014, 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 accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at 30 June 2014 and of its statement of profit or loss and other comprehensive income and 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) We have no comments to make on the report of the Board of Directors of the Bank in so far as it relates to these financial statements and pursuant to Article 375(1) of the Commercial Code of Ethiopia, 1960;
- ii) Pursuant to article 375 (2) of the Commercial Code of Ethiopia we recommend the financial statements for approval.



HST, Chartered Certified Accountants  
and Authorized Auditors  
Addis Ababa 25 September 2014



“ WE SPEAK ...  
MANY CURRENCIES ! ”

*Visit us for a full range of  
international banking services.*

#### 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.

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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#### Presentation differences

Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity.

Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition.

Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous GAAP descriptions in brackets):

Property, plant and equipment (Tangible Fixed Assets)

#### 3. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE BANK

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in the Banks's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Banks's financial statements.

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 - Financial Instruments	1 January 2014
IAS 32 - Offsetting Financial assets and Financial Liabilities	1 January 2015
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 DE recognition.

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

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



ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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.

**Comparatives**

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

**2.3 First-time adoption of IFRS**

These financial statements, for the year ended 30 June 2014, are the first the Bank has prepared in accordance with IFRS. For periods up to and including the year ended 30 June 2013, the Bank prepared its financial statements in accordance with previous generally accepted accounting principle (Previous GAAP).

Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2014, together with the comparative period data as at and for the year ended 30 June 2013, as described in the summary of significant accounting policies. In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 1 July 2012, the Bank's date of transition to IFRS. There are no principal adjustments made by the Bank in restating its Previous GAAP financial statements, including the statement of financial position as at 1 July 2012 and the financial statements as at and for the year ended 30 June 2013.

**Statement of cash flows**

The transition from previous GAAP to IFRS has not had a material impact on the statement of cash flows.

**Exemptions applied**

Upon transition, IFRS 1 permits certain exemptions from full retrospective application of IFRS. The Bank has applied the mandatory exceptions and certain optional exemptions, as set out below.

**Mandatory exceptions adopted by the Bank:**

Financial assets and liabilities that had been de-recognized before the date of transition to IFRS under previous GAAP have not been recognized under IFRS.

The Bank has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

**Optional exemptions applied by the Bank:**

The Bank has elected to use fair value as deemed cost at the date of transition for some items of property, plant and equipment.

**Estimates**

The estimates at 1 July 2012 and at 30 June 2013 are consistent with those made for the same dates in accordance with previous GAAP (after adjustments to reflect any differences in accounting policies).

The estimates used by the Bank to present these amounts in accordance with IFRS reflect conditions at 1 July 2012, the date of transition to IFRS and as of 30 June 2013.

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


ZEMEN BANK S.C.  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
 FOR THE YEAR ENDED 30 JUNE 2014  
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	Note	2014	2013
INTEREST INCOME	5	205,430,993	150,114,285
INTEREST EXPENSE	6	(114,450,637)	(100,522,326)
NET INTEREST INCOME		90,980,356	49,591,959
Fees and commission income	7	158,569,298	151,144,416
Gains on foreign exchange dealings & fluctuations (net)	8	90,547,868	101,788,481
Other income	9	706,169	2,003,563
OPERATING INCOME		340,803,691	304,528,419
Operating expenses	10	(120,309,534)	(82,120,977)
Impairment losses on loans and advances	16	(55,476,734)	(98,596,589)
PROFIT BEFORE TAXATION		165,017,423	123,810,853
TAXATION CHARGE	11	(36,611,936)	(29,664,908)
		128,405,487	94,145,945
Board of Directors' remuneration	33	(450,000)	(415,890)
PROFIT FOR THE YEAR		<u>127,955,487</u>	<u>93,730,055</u>
EARNINGS PER SHARE (of Birr 1000 each)	12	<u>320.80</u>	<u>410.55</u>

ZEMEN BANK S.C.  
**STATEMENT OF FINANCIAL POSITION**  
 AS AT 30 JUNE 2014  
 In Ethiopian Birr

ASSETS	Note	2014	2013	2012
Cash and balances with National Bank of Ethiopia and other banks	13	1,493,765,017	784,637,806	825,278,173
Government securities	14	947,081,887	1,067,549,387	465,511,387
Loans and advances to customers	15	1,303,682,120	1,252,925,820	994,558,320
Investment in equity shares	17	5,031,000	5,031,000	1,259,000
Other assets	18	100,609,223	69,601,517	59,521,073
Property held for sale	19	8,320,023	8,644,675	1,103,050
Property, plant and equipment	20 (a)	32,942,596	28,023,709	22,774,916
Intangible assets	20 (b)	26,002,054	24,582,052	24,172,628
Leasehold land	21	7,335,537	7,461,531	-
<b>TOTAL ASSETS</b>		<b>3,924,769,457</b>	<b>3,248,457,497</b>	<b>2,394,178,547</b>
<b>LIABILITIES</b>				
Customer deposits	22	3,030,870,703	2,500,662,885	1,786,277,333
Due to financial institutions	23	2,258,956	4,263,658	6,605,497
Other liabilities	24	106,676,613	105,235,534	203,404,755
Finance lease obligation	25	6,047,650	6,047,650	-
Margins held on letters of credit	26	85,363,953	109,118,199	80,414,345
Tax payable	11 (c)	36,540,037	29,642,944	36,876,243
<b>TOTAL LIABILITIES</b>		<b>3,267,757,912</b>	<b>2,754,970,870</b>	<b>2,113,578,173</b>
<b>SHAREHOLDERS' FUNDS</b>				
Share capital	27	449,576,000	343,813,000	149,576,000
Share premium		425,000	425,000	425,000
Retained earnings		95,854,115	70,193,569	55,518,571
Legal reserve	28	111,156,430	79,055,058	75,080,803
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<b>657,011,545</b>	<b>493,486,627</b>	<b>280,600,374</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>3,924,769,457</b>	<b>3,248,457,497</b>	<b>2,394,178,547</b>

The financial statements on pages 27 to 62 were approved and authorised for issue by the board of directors on 25 September 2014 and were signed on its behalf by:

  
 Dr. Berhane Ghebray  
 Chairman Of The Board

  
 Tsegay Tetemke  
 President /CEO

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given.

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight line basis over the life of the guarantee.

**b) De-recognition of financial liabilities**

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is re- cognized in profit or loss. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

**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% 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 benefits**

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 9% and 7% of the individual monthly salaries, respectively until the employer contribution reaches 11%. These contributions are charged to profit or loss.

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



ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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 In Ethiopian Birr

Classification	Provision Classification % of net recoverable amount
(i) Pass loans - Loans and advances that are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. In general, loans and advances which are fully secured, both as to principal and interest, by cash or cash substitutes, are classified under this category regardless of past due status or other adverse credit factors.	1 %
(ii) Special mention - Any loan or advance past due 30 or more days, but less than 90 days.	3%
(iii) Substandard - Non-performing loans or advances past due 90 or more days but less than 180 days.	20%
(iv) Doubtful - Non- performing loans or advances past due 180 or more days but less than 360 days.	50%
(v) Loss - Non-performing loans or advances past due 360 days.	100%

The net loan balance is the outstanding balance less the net recovery value of the collateral. When a loan is deemed uncollectable, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan impairment in the income statement.

**Financial liabilities and equity instruments issued by the Bank**

**a) Classification & Measurement**

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

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the

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

ZEMEN BANK S.C.  
**STATEMENT OF CHANGES IN EQUITY**  
 FOR THE YEAR ENDED 30 JUNE 2014  
 In Ethiopian Birr

	Share Capital	Share premium	Legal reserve	Retained earnings	Total
<b>At 1 July 2011</b>	149,576,000	425,000	33,925,538	56,782,940	240,709,478
Profit for the year 2012	-	-	-	85,988,800	85,988,800
Transfer to legal reserve	-	-	21,593,033	(21,593,033)	-
Dividends declared-2011	-	-	-	(46,097,904)	(46,097,904)
<b>At 30 June 2012</b>	<u>149,576,000</u>	<u>425,000</u>	<u>55,518,571</u>	<u>75,080,803</u>	<u>280,600,374</u>
<b>At 1 July 2012</b>	149,576,000	425,000	55,518,571	75,080,803	280,600,374
Issue of shares	194,237,000	-	-	-	194,237,000
Profit for the year-2013	-	-	-	93,730,056	93,730,056
Transfer to legal reserve	-	-	23,536,487	(23,536,487)	-
Dividends declared-2012	-	-	-	(75,080,803)	(75,080,803)
<b>At 30 June 2013</b>	<u>343,813,000</u>	<u>425,000</u>	<u>79,055,058</u>	<u>70,193,569</u>	<u>493,486,627</u>
<b>At 1 July 2013</b>	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)
<b>At 30 June 2014</b>	<u>449,576,000</u>	<u>425,000</u>	<u>111,156,430</u>	<u>95,854,115</u>	<u>657,011,545</u>

ZEMEN BANK S.C.  
**STATEMENT OF CASH FLOWS**  
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	Note	2014	2013
<b>Cash flows from Operating Activities</b>			
Cash generated from/ (used in) operating activities	29(a)	702,503,606	(50,537,731)
Tax paid	11(c)	(29,642,944)	(36,876,243)
Advance profit tax paid	11(c)	(71,899)	(21,964)
Net cash generated from/ (used in) operating activities		<u>672,788,763</u>	<u>(87,435,938)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	20 (a)	(14,266,701)	(13,120,924)
Acquisition of intangible assets	20 (b)	(5,099,671)	(8,021,863)
Proceeds from sale of property, plant and equipment		36,091	-
Purchase of equity shares	17	-	(3,772,000)
Net cash used in investing activities		<u>(19,330,281)</u>	<u>(24,914,787)</u>
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares		105,763,000	194,237,000
Dividends paid		(70,193,569)	(75,080,803)
Net cash generated from financing activities		<u>35,569,431</u>	<u>119,156,197</u>
<b>Increase (decrease) in cash and cash equivalents</b>		689,027,913	6,805,472
<b>Cash and cash equivalents at the beginning of the year</b>		<u>647,478,148</u>	<u>640,672,676</u>
<b>Cash and cash equivalents at the end of the year</b>	29(b)	<u><u>1,336,506,061</u></u>	<u><u>647,478,148</u></u>

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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initial recognition of the asset (a 'loss' event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- The National Bank of Ethiopia directive on asset classification and provisioning;
- Delinquency in contractual payments of principal and interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

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 amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

*i) Renegotiated /restructured loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

*ii) Impairment losses on loans and advances*

Loans and advances are shown at the gross amount adjusted for any provision for impairment losses. A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

In addition, a general provision is made against losses which are likely to be present in any loans and advances portfolio. The Bank follows the National Bank of Ethiopia Supervision of Banking Business Directive Number SBB 43/2008 in determining the extent of general provisions for impairment losses. The Directive classifies loans and advances as follows.

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



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*i) Due from banks and loans and advances to customers*

Due from banks and loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

After initial recognition, these amounts are subsequently measured at amortised cost using the effective interest rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in profit and loss. The losses arising from impairment are recognised in profit or loss.

*ii) Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.

Held-to-maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss.

**b) De recognition of financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired.
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay
- the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes in the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

**C) Impairment and un collectability of financial assets**

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after

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

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 nine Branches.

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For all periods up to and including the year ended 30 June 2013, the Bank prepared its financial statements in accordance with previous generally accepted accounting principles (Previous GAAP). These financial statements for the year ended 30 June 2014 are the first the Bank has prepared in accordance with IFRS.

The financial statements have been prepared on a historical cost basis, except for land that has been measured at fair value. The financial statements are presented in Ethiopian Birr (ETB)

**2.2 Summary of significant Accounting policies**

**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 rate 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.

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

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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.

Other fees and commission expense relates 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:

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

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over five years. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**Finance Lease**

Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lease. Title may or may not eventually be transferred. The bank has leased land for construction of Head Office building from the Addis Ababa City Administration to be used over 60 years at initially agreed price and periodic payment, with full right and obligation over the lease life.

The lease land is recognized at the lower of the fair value of the land or at lower of the present value of the minimum lease payments determined at the inception of the lease.

For arrangements entered into prior to 1 July 2012, the date of inception is deemed to be 1 July 2012 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

**Property held for sale**

Property held for sale is movable and immovable property 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. It is stated the lower of the carrying amounts and at its fair value less cost to sell.

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

ZEMEN BANK S.C.  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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, 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 – Initial recognition and subsequent measurement**

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

**Financial assets**

**a) Classification and measurement**

The Bank classifies its financial assets into the following IAS 39 categories: financial assets at fair value through profit or loss; loans, advances and receivables and held-to-maturity investments. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

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