



ANNUAL REPORT 2012



Financial Solutions from A to Z
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Ethiopia's First Hot Air Balloon Flight - February 14th 2012 - Addis Ababa

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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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, 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




Zemen
BANK

**Dr. Berhane
Ghebray**
Board Chairman




Zemen
BANK

**Tamiru
WondimAgegnehu**
Board Director



Zemen
BANK

Abera Degefa
Board Director



Zemen
BANK

**Dr. Asmamaw
Kelemu**
Board Director



Zemen
BANK

Emebet Dejene
Board Director



Zemen
BANK

Eng. Girma Afwork
Board Director



Zemen
BANK

Kbreab Afework
Board Director



Zemen
BANK

Neway Berhanu
Board Director

PERSONAL
BANKING



SENIOR MANAGEMENT



Zemen BANK

Tsegay Tetemke
President / CEO



Zemen BANK

Helaway Tadesse
Senior Vice President



Zemen BANK

Ermias Eshetu
Vice President
Marketing & Corporate Services



Zemen BANK

Sebhat Belayneh
Vice President
Finance & International Banking



Zemen BANK

Adugna Mekonnen
Manager
New Business Development, Planning & Research



Zemen BANK

Demelash Demissie
Manager
Domestic Banking Operations



Zemen BANK

Firehiwot Birke
Manager
Main Branch



Zemen BANK

Meseret Wondim
Manager
Internal Audit



Zemen BANK

Nebyou Tekola
Manager
HR & Support Services



Zemen BANK

Solomon Ketema
Manager
Credit



Zemen BANK

Solomon Mamo
Manager
Finance



Zemen BANK

Tesfaye Boru
Manager
Risk & Portfolio Management

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.

CHAIRMAN'S STATEMENT

Year ended 30 June 2012

It is with great pleasure that I introduce to you the 2011/12 Annual Report of Zemen Bank. As you will see in the pages that follow, the Bank is able to report notable accomplishments on many fronts in the past fiscal year. Key operational measures—deposits, loans, and foreign exchange inflows—showed impressive growth rates that continue to surpass industry averages. Innovative banking services were introduced during the year—including, for example, the launch of Ethiopia's first-ever pre-paid debit cards. Revenues and profits reached the highest levels since the Bank's founding four years ago. And perhaps most important to our shareholders, our dividend returns in terms of earnings per share have remained among the highest in the banking industry despite our relatively recent entry into the sector.

The positive outturns noted above were aided by a macroeconomic environment that, although challenging in some areas, was broadly supportive of banking activity in most respects. On the inflation front, the very rapid pace of price increases seen early in the fiscal year moderated substantially over time, with inflation halving to 20 percent by June 2012 and thus becoming more supportive of savings in the financial system. Broad money growth was 34 percent in the year to June 2012 and thus facilitated rapid deposit expansion at commercial banks. International banking activity was dampened somewhat by a sharp slowdown in export growth (to just 15 percent this past fiscal year from 30 percent the year before), but other strong foreign exchange inflows in the form of remittances and foreign investments provided sufficient offsets

for most of the fiscal year. With the added benefit of strong and broad-based economic growth, the Bank has been able to expand and deepen its financial linkages with many of the economy's key sectors including in agri-business, industry, exports, and services.

Beyond successfully navigating the varied macroeconomic conditions of the past year, the 2011/12 fiscal year has been one in which the Bank took stock of its performance in its formative years and laid out a long-term Strategic Plan to guide our operations until 2016. In this context, the Bank has solidly reaffirmed and reiterated its original vision: to bring a new dynamism to the financial sector and the banking business in Ethiopia. To realize this vision, our Strategic Plan lays out a well-articulated set of actions that the Bank will implement, regularly monitor, and modify as needed in the coming years. To highlight some of our high-level strategic priorities, we will work to:

- Deepen further our "blue ocean" business model that seeks to offer unique and differentiating value-added services that are either new or under-provisioned in the local banking industry;
- Strengthen our distinctive operational model that focuses on one main branch but also offers multiple service points for efficient, customer-centric, and low-cost operations;
- Maintain technological capabilities that are fully in line with the latest advances in the global banking industry and benchmarked against international best practices;

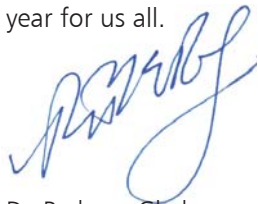
PRESTIGE
BANKING



- Maintain the most attractive returns to savers through industry-leading interest rates for depositors , thus playing our part in maximizing the pool of national savings needed to support private investment;
- Provide financing to nationally recognized and GTP-supportive priority economic sectors such as exports and industry;
- Continuously improve our risk control systems to safeguard the funds of our depositors and shareholders;
- Ensure exceptional customer service as a means of distinguishing ourselves among the rising number of players within the domestic banking industry.

With the above set of medium-term priorities, Zemen Bank is well positioned to stay true to its original and distinctive mission of delivering superior value to our customers, partners, and shareholders. Moreover, we trust that all these strategic initiatives taken on our part will help ensure that Zemen Bank contributes in its own modest way to the much broader nation-wide agenda of improving the size, scope, and shape of the financial sector in Ethiopia.

Thank you and best wishes for another great year for us all.



Dr. Berhane Ghebray
Chairman of the Board
Zemen Bank



Zemen Bank's New Headquarters

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.

19M
BIRR WITHDRAWN
FROM ATMS
EVERY MONTH

3700
INTERNET BANKING
USERS EVERY MONTH

\$181M
IN FOREX INFLOWS

23%
REVENUE
INCREASE FROM PREVIOUS YEAR

56% LOAN
INCREASE
FROM PREVIOUS
YEAR

1.0B
LOANS TO CUSTOMERS

500
EXPORT IMPORT
TRANSACTIONS PER MONTH

1.8B
DEPOSITS MOBILIZED

54% DEPOSIT
INCREASE FROM
PREVIOUS YEAR

465M
GOVERNMENT BILLS
PURCHASED

10M
BIRR TO
VISA
CARD HOLDERS

37M
TAXES PAID

12,600
EMPLOYEES USING
PAYROLL SERVICES

160,208
CUSTOMER TRANSACTIONS
DURING THE YEAR

24% FOREIGN EXCHANGE
INCREASE
FROM PREVIOUS
YEAR

400 ATM USERS
DAILY

From just a single branch!

Z - CLUB
BANKING



SHAREHOLDERS' MEETING (October 2, 2011)



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 (5.75%), 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

Year ended 30 June 2011

The Board of Directors is pleased to present the 2011/12 Annual Report of Zemen Bank 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 has completed the 2011/12 fiscal year by continuing to build upon the solid gains registered since its founding and by strengthening further the needed foundations for long-term growth. The Bank's gross profits rose again this year to Birr 123.3 million, reflecting gross revenue of Birr 266.6 million that was offset by Birr 143.3 million in expenses, which includes a one-off provision related to a legal dispute concerning last year's capital-raising exercise. After accounting for this special provision and taxes, the Bank registered a net profit of Birr 86 million in FY 2011/12.

The profit growth recorded by Zemen Bank in FY 2010-11 has slowed compared to the growth seen in the Bank's formative years, but nonetheless reflects a noteworthy accomplishment within the context of challenging global and national macroeconomic conditions. The Bank's after-tax net income of Birr 86 million is the highest seen in the past four years of operations and translates into a return on average equity of 47 percent as well as a return on average assets of 4.3 percent. Expressed relative to the legally

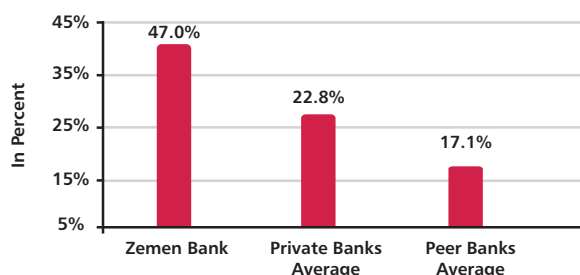
registered paid-up capital of the Bank, the net income result is equivalent to an earnings per share of 57.7 percent. (The ratios for return on average equity and earnings per share would be 34 percent and 40 percent respectively if a Birr 250 million paid-up capital base were utilized—see Financial Statements Note 13). The above noted results remain near the high end of the financial performance seen in the banking industry. By way of comparison, as of June 2012, the estimated average return on equity among Ethiopia's private banks was 23 percent while the average return on assets was 3.0 percent.

Return on Equity and Return on Assets

Zemen Bank's strong financial performance continues to be aided by several favorable elements in the structure of the Bank's revenue, expenditure, and balance sheet. These favorable elements, in turn, are very closely linked to the Bank's distinctive business model of offering technologically-driven banking services that are based mainly on a single-branch but supplemented by multiple service points such as ATMs, POS terminals, Foreign Exchange Bureaus, and Banking Kiosks.

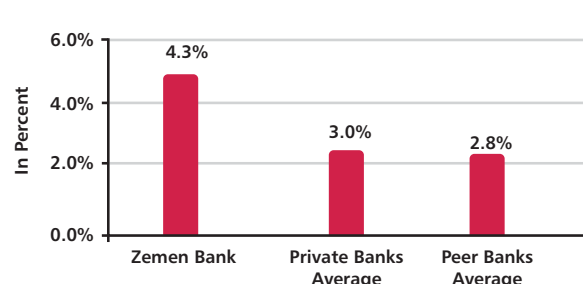
Return on Equity (RoE)

GRAPH 1



Return on Assets (RoA)

GRAPH 2



INTERNATIONAL
BANKING

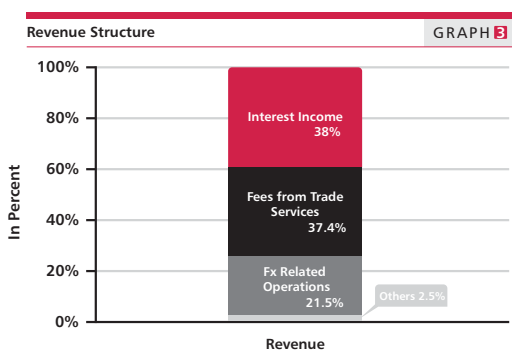


Revenues

The Bank collected gross revenue (excluding interest expenses and provisions) of Birr 266.6 million during the year, a 23 percent increase from the previous fiscal year. The two largest revenue sources for the bank are interest income on our loans (Birr 102.8 million or 38.6 percent) and service fees charged on trade operations (Birr 99.7 million or 37.4 percent of total revenue). A third revenue source, gains from foreign exchange related operations, provided Birr 57.4 million or about one-fifth of revenues. With our expanding loan book, the Bank's revenue structure has become more diversified and less susceptible to a slowdown in any one particular line of activity such as credit or international banking.

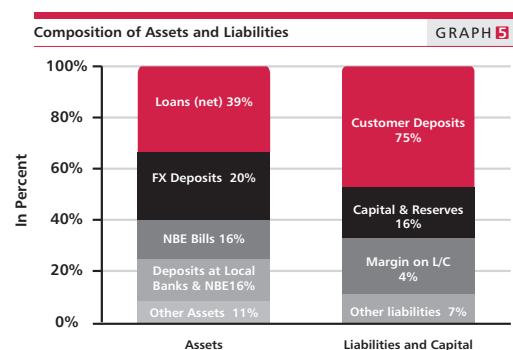
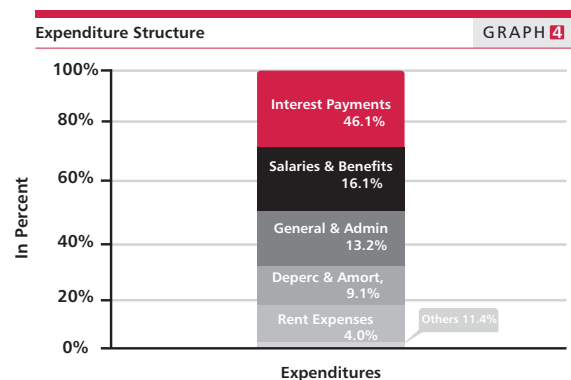
Expenditure

The Bank's total spending of Birr 143.3 million was dominated by expenses for interest payments (Birr 66.1 million), salaries and benefits (Birr 23.1 million), general and administrative items (Birr 18.9 million), depreciation and amortization (Birr 13.1 million) and rent (Birr 5.8 million). The Bank's unique business model continues to help limit costs for branch expansion and associated staff expenses. Indeed, our cost-to-income ratio (which is a key measure of efficiency used in the banking sector and compares operating costs to operating income excluding exceptional items) remained low at just 31 percent for FY 2011/12, among the lowest in the Ethiopian banking industry. This cost advantage remains a major competitive edge of Zemen Bank and an important driver of our present and future profitability.



Balance Sheet

The Bank's balance sheet expanded by 48.3 percent during the year, rising from Birr 1.6 to 2.4 billion. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits (Birr 1.792 billion), shareholder funds (Birr 280.6 million), and various miscellaneous liabilities (Birr 97.3 million). The counterpart to these funds collected from customers and shareholders are four main assets: loans and advances after provisions (Birr 994.6 million); foreign exchange deposits at foreign banks (Birr 473.2 million); NBE and Treasury Bills (465.5 million); and deposits at local banks and NBE (Birr 257.8 million). The Bank continues to have a strong capital base, with a capital adequacy ratio of 13 percent of risk-weighted assets compared to the regulatory minimum of 8 percent. (The capital adequacy ratio would be 19 percent if a Birr 250 million paid-up capital base were utilized—see Financial Statements Note 13). Moreover, in line with our prudent banking practices, the Bank's liquidity ratio (liquid assets to total deposits) was well above regulatory requirements throughout the year and stood at 50 percent at end-June 2012.



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
- International wires and transfers
- Foreign cash and check-related services
- Dollar/Euro accounts to eligible savers
- Remittance services to send/receive funds

Dividend Payout Proposal and the Bank's Paid Up Capital

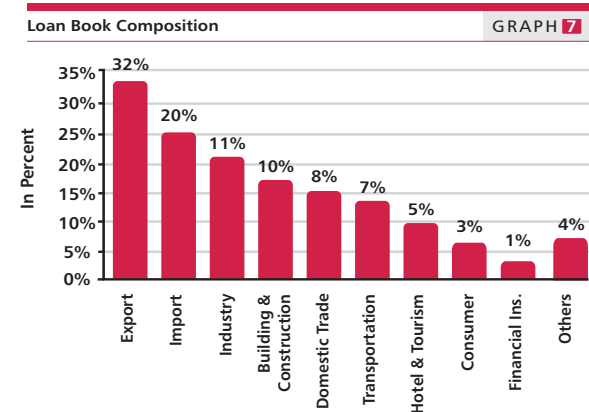
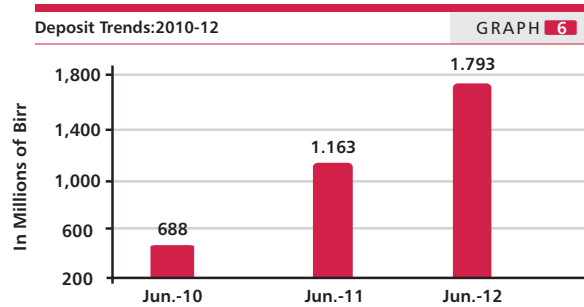
Based on the financial results of the fiscal year, Birr 75.080 million has been transferred to retained earnings reflecting several notable deductions as well as a prior-year adjustment. First, a special reserve of Birr 9 million has been held as an expense item in connection with a legal ruling arising from last year's capital-raising exercise (see below). This special reserve reduces net profit before tax to Birr 123.311 million. After accounting for taxes, net profit after tax amounts to Birr 86.372 million. This figure, in turn, is subject to two deductions on account of Legal Reserves (Birr 21.593 million) and Directors profit-share (Birr 0.383 million). The remaining figure amounts to Birr 64.395 million and represents retained earnings from the Bank's operations in FY 2011/12. Added to this is a sum of Birr 10.685 million, representing income that was earned in earlier years and had been set aside for the Bank's Promoters and for shareholders who fully paid up their share subscriptions.

The legal case that has warranted a special provision of Birr 9 million is related to the Bank's capital-raising exercise conducted at the Shareholders Meeting of September 2011, when it was agreed to raise the paid-up capital from Birr 149.576 million to Birr 249.576 million. Two shareholders raised objections about the procedural methods following during the capital raising exercise, including: (1) The decision to raise only Birr

100 million in capital for FY 2011/12 when a total of Birr 300 million was approved; (2) the application of a 10 percent premium; (3) the failure to get 100 percent shareholder approval for raising the new shares (instead 99.9 percent of shareholders' vote was secured) and (4) the sale of shares remaining after shareholders had received allocations on a proportional basis by use of a first-come first-served method. After reviewing the case, the Federal First Instance Court on July 2, 2012 ruled against the Birr 100 million in funds being counted as paid-up capital on account of the procedures following during the capital raising. The same court also ruled against two special allocations passed by the Extraordinary Meeting of Shareholders, involving payments to Promoters and to shareholders who fully paid up their share subscriptions when buying shares.

Following the above Court verdict, the Board of Directors had initially appealed the legal ruling but subsequently reached a decision to withdraw its appeal and honor the Court's ruling. This decision has been taken following extensive legal and expert advice, after consideration of the best interests of all stakeholders, and with the aim of avoiding a potentially prolonged court case that would be unnecessarily distracting from the Bank's core business.

In light of the above developments, the Board of Directors proposes the following treatment for the retained earnings of Birr 75.080 million. Since dividends cannot legally be paid on the new Birr 100 million capital raised during the September-December 2011 period, the Board proposes that the





MORTGAGE LOANS



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retained earnings be fully allocated to shareholders of the initial Birr 149.576 million in paid-up capital outstanding as of June 2011. Moreover, the Board of Directors proposes the following two sub-allocations. First, the Board proposes that Birr 64.3 million in retained earnings, reflecting income earned in FY 2011/12, be offered to shareholders as a cash dividend; this will translate into a dividend return to shareholders of 43 percent. Second, the Board proposes that the Birr 10.685 million in funds representing allocations to Promoters and to shareholders who had settled their obligations upfront when buying shares be distributed to all shareholders in proportion to the amount of their shareholding and based on the exact timing of their initial share purchase.

Banking Operations

Zemen Bank has continued to show rapid growth in the three key 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 close to 54 percent in its fourth year, with total deposits mobilized reaching Birr 1.792 billion at end-June 2012 from a level of just Birr 1.162 billion a year earlier. The average size of a deposit at Zemen Bank (approximately Birr 145,000) continues to be substantially higher than the norm at other private banks, in line with our distinctive business model. The composition of deposits remains broadly unchanged from last year's levels and is in line with the Bank's strategic objectives: long-term deposits in the form of CDs are around 15 percent of total deposits (versus 15 percent a year earlier and 34 percent two years ago), while the share of savings deposits and checking deposits are 63 percent and 22 percent respectively. The reduction in the composition of time deposits relative to the Bank's initial years has reduced the Bank's interest cost, while the still significant share of such long-term deposits enables the Bank to offer longer-term loans to its customers.

Branch and Account Services

Activity indicators at our Branch and various multi-channel banking services have grown substantially over the past fiscal year. To provide a snapshot of our activities in this area:

- Our Main Branch has shown substantial growth in all areas of its operations, driven by a 65 percent increase in the number of deposit accounts at the Bank last year. In line with the rising number of accountholders, the Bank registered 87 percent growth in cash deposit transactions, 62 percent growth in cash withdrawal transactions, and 42 percent growth in check-related transactions.
- Our Kiosk network has expanded to six locations and includes banking kiosks providing services to dedicated 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).
- Our ATMs are being used on average of around 400 times every single day. On a monthly basis, our ATM network is utilized by more than 12,000 customers making Birr 19 million in cash withdrawals per month. Key measures of ATM usage, including daily customer transaction volumes as well as the total value of cash withdrawals, have more than doubled in the past year.
- Our Internet facilities are utilized approximately 125 times every single day, or about 3,700 times per month, providing a very convenient channel to our corporate and personal clients. Over the past two years, our customers have accessed our internet banking facilities over 55,000 times to fulfill their banking needs, including for electronic fund transfers to other accounts.
- Over 12,600 employees are beneficiaries of our corporate payroll services, ranging from field workers at several large commercial farms to the Staffs of embassies and international organizations within Addis Ababa.

Mortgage Loans

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

Credit

The Bank's total lending (net of provisions) has reached close to Birr 1 billion in June 2011 from Birr 633.7 million a year earlier. The loan-to-deposit ratio was 56 percent at year-end, near its level of a year earlier. However, considering the Bank's purchase of NBE Bills and Treasury Bills, as per central bank directives, the ratio of loans and bills to deposits reached 78 percent in June 2011. Various loan activity indicators showed strong growth: the number of loans rose 28 percent from 517 to 660 while monthly interest income jumped by more than 60 percent from Birr 7.6 million in June 2011 to Birr 12.3 million in June 2012. The share of non-performing loans to total loans at end-June 2012 has been kept at a low level of 2.9 percent through strong credit follow-up and monitoring procedures. Regarding the composition of loans, export-related loans continue to show the highest share (32.0%), followed by import-related loans (19.8%), Industry (10.9%) and Building & Construction (9.6%). Among private banks, Zemen Bank continues to have among the highest share of its loans devoted to the export sector, a desirable sector structure for loans given the sizeable foreign exchange income earned from export sector borrowers. Moreover, the Bank continues to take pride in devoting high shares of its loans to sectors accorded high national priority such as exports and industry.

International Banking

International banking services continued to be one of the dominant sources of the bank's income, thanks to \$181.3 million in foreign exchange inflows collected by the Bank during the past year. Foreign exchange inflows averaged \$15 million per month, a growth rate of 24 percent from the prior fiscal year. Since the country's export growth was 15 percent for FY 2011/12, the 24 percent growth rate registered by Zemen Bank indicates a continued rise in our market share. We estimate that Zemen Bank is now capturing foreign exchange inflows that are equivalent to 11 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 fiscal 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 500 export and import transactions per month and completed a total of about 5,800 transactions during the course of the year. The Bank has expanded its correspondent banking and RMA relations with 74 banks covering 34 countries, including active correspondent account relationships with global financial institutions such as Citibank, Commerzbank, ABN AMRO, and JP Morgan Chase.

Human Resources, Administration

To fully support the rapid growth of the many operational activities noted above, the Bank continued the upgrading and strengthening of its staff capabilities, its administrative systems, and control environment. In this regard, the Bank's staff headcount has been raised from 191 to 249 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 15 staff receiving training abroad and 23 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. Separately, over 70 staff have undergone a tailored customer service training program in an effort to make 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, control, and mitigation. In the just completed fiscal year, the Department successfully received approval from the National Bank of Ethiopia of its Risk Management Program, a comprehensive action plan that guides all Bank activities to mitigate risk components including credit risk, liquidity risk, market risk, operational risk, and strategic risk. Regular quarterly assessments undertaken this past year include 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

C O R P O R A T E
L O A N S



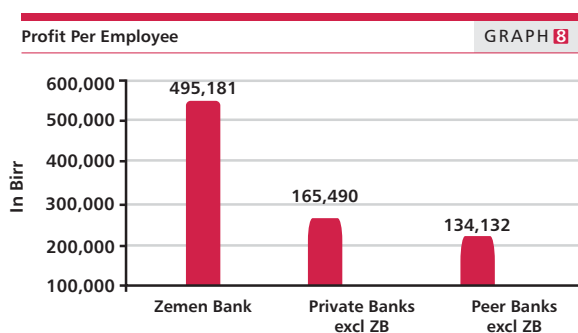
provisioning levels. The task of regularly identifying and mitigating risks continues to be supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Sub-Committee and Loan Review Sub-Committee. required provisioning levels. The task of regularly 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 Sub-Committee and Loan Review Sub-Committee

Productivity and Efficiency in Banking Operations

The Bank continues to be a leader in terms of the productivity and efficiency of its banking operations. Key performance indicators in this area continue to show the Bank as having one of the most productive and efficient operational performance measures in the industry:

Deposits Per Branch

Zemen Bank's single main branch—supplemented by our multiple service points—has collected 1.8 billion in deposits, a figure that is roughly 18 times the average of Birr 100 million of deposits that is mobilized by an average private bank branch. This result is a testament to our distinctive business model of offering convenient non-branch service delivery channels (such as ATMs, Internet Banking, and Cash Collection/Delivery Services) as well as our focus on providing attractive savings rates, exceptional customer service, and—especially for the corporate segment—uniquely tailored banking services.



Deposits Per Customer

In line with our business model, the average size of a Zemen Bank deposit is Birr 145,000, or more than seven times the private bank norm of Birr 20,000 per average depositor.

Profits Per Employee

Zemen Bank's gross profits of Birr 123.3 million, achieved through the collective efforts of 249 employees, translates into Birr 495,000 of profits being generated per employee. By comparison, the profit per employee that is generated at other private banks averages only Birr 165,000 or one-third the per-employee profitability of Zemen Bank employees.

Technology-based banking

Zemen Bank continued its efforts this past year to become a leader in technology-based banking. We continue to be one of the few banks in Ethiopia that offer both ATM and Internet Banking services for their customers' convenience. Our work in expanding the use of technology-based banking this year has included a number of new initiatives:

Expanding Our Core Banking System To Include Credit & International Banking Operations

The Flexcube core banking software of Oracle Financial Solutions Services, a highly reputed provider of banking solutions that is operational in more than 100 countries and 250 financial institutions worldwide, was successfully deployed in FY 2010/11. In the just completed fiscal year, the Bank has broadened the application of this software solution beyond just the main retail module to include our International Banking and Credit Departments, all of which will continue to enhance the speed, safety, and efficiency of our internal operations.

ATMs

The Bank's rollout of its ATM network has continued this past year and a total of 25 ATMs are currently deployed. With a further 10 ATMs being purchased shortly, a total of 35 ATMs will be functional by end 2012. Our ATM service continues to distinguish itself by not charging withdrawal fees for Zemen

Corporate Loans

Zemen Bank's corporate lending services can finance businesses that need:

- Term loans to establish/expand operations
- Machinery/vehicles/equipment loans
- Export or import financing
- Merchandise loans
- Short-term lines of credit
- Project finance loans

Bank customers and is currently the only one in the market that offers 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, the customers of Zemen and Dashen Banks are both able to benefit from a total network of more than 100 ATMs at locations throughout Addis Ababa and several regional cities.

Point Sale Terminals

By finalizing a large order of Point of Sale terminals this past fiscal year, Zemen Bank is working to expand the usage of non-cash payment methods within the local economy. In this context, a roll-out of 100 POS terminals at various retail locations (hotels, restaurants, stores) is anticipated by 2013.

Internet Banking

Zemen Bank's internet banking facility, which is accessed more than 3,700 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 account holders online—the first ever such service in Ethiopia. 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.

Pre - Paid Cash Cards & Gift Cards

Zemen Bank launched a pre-paid cash card product in early 2012, representing a first-of-its-kind banking product in the local market. The cards are similar to debit cards, but rather than being linked to a Zemen Bank account they are instead pre-loaded with a given amount of funds that can then be drawn down by the card-holder at ATMs and/or POS terminals. Their usage is available for both consumer use (as gifts for example) or for business purposes (as expense cards used by employees). Currently, buyers of pre-paid cards can load up to Birr 25,000 on the cards and are able to top-

up the cards multiple times as they draw down the originally loaded cash on the card.

Outlook for The Year Ahead

In the year ahead, the Bank will continue to expand the full range of commercial banking services it has been offering since its establishment: providing deposits at attractive interest rates; extending loans for different sectors and at varying maturities; and offering international banking services linked to the country's export, import, remittance and foreign direct investment activities. In addition, we will further expand our multiple service delivery outlets in the form of ATMs, POS terminals, and Banking Kiosks while also widening our offering of specialized corporate services to a much larger base of customers than was the case so far.

Beyond these services, we would also highlight several specific initiatives that are already begun or soon to be commenced in the new fiscal year:

Capital Increase

To support the Bank's fast-growing operations, the Board of Directors will propose an increase in the Bank's capital base at the Annual General Meeting of Shareholders in November 2012. This increase will allow the Bank to provide a larger volume of loans (including larger loan amounts to any single borrower) and will also give us greater flexibility in our foreign exchange operations. As always, existing shareholders will be given the opportunity to contribute towards the capital increase.

Competitive Saving 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 5.75 percent for Z-Club savings accounts. With this interest rate offer, the Bank is playing a small part in encouraging a national culture of savings and, through this process, in raising the volume of savings available for investments in the economy as a whole.

Doorstep Banking

As part of our on-going efforts to offer customized services that address the needs of customers, we

PERSONAL
LOANS



have fully launched in mid-2012 a “Doorstep Banking” service tailored to corporate clients. This new service addresses the needs of companies with high daily cash turnover who want a simplified means of depositing funds into or withdrawing cash from their business accounts. With all the relevant logistical, security, and insurance requirements in place, we deliver or pick-up cash from 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.

Finalization Of Headquarters Design

Zemen Bank has in the past year successfully secured from the Addis Ababa City Administration a 2,300 square meter plot of land in the middle of what has recently been designated as the city’s Financial District. After a competitive bidding process, an initial architectural design for the new headquarters has been selected and the detailed production of the architectural design is taking place in FY 2012/13. The process of finalizing the design and moving towards the selection of a building contractor is expected by mid-2013.

Mobile Banking

Zemen Bank is awaiting final regulatory approval for the launch of our mobile banking solution, dubbed z-Birr, that allows users the ability to send/receive funds via their mobile phones. With the requisite technological systems in place and having reached partnerships with prospective mobile banking agents, we aim to begin delivering this money transfer service (pending NBE approval) in a manner that makes it widely available to all mobile users while also doing so in a cheaper, simpler, and faster way than existing alternatives.

Mastercard, China Unionpay, and Western Union

After its successful entry into the VISA International network in early 2012, Zemen Bank is now working to expand its card acceptance services to Mastercard and China Unionpay. Besides broadening the Bank’s sources of foreign exchange and income, our entry into these international card networks will mean that owners of VISA, Mastercard, and Unionpay cards issued anywhere in the world will enjoy the convenience of having access to local currency funds at our ATMs. In addition, after completing the

associated requirements, Zemen Bank is joining the Western Union international remittance network, thereby allowing remitters worldwide the ability to use Zemen Bank outlets to send funds to Ethiopia. In this connection, we are working to link our multiple cash delivery channels (branch, kiosks, mobile banking agents, and ATMs) as potential cash out points for all incoming international remittances.

Collaborative work with international organizations

Zemen Bank continues to collaborate with several external agencies, including USAID and KfW, to support innovative financing facilities. Our two current partnerships with international organizations involve guarantee schemes that provide risk cover to loans that we extend to the agricultural sector and to micro-finance institutions (MFIs). Loans near Birr 41 million have been provided to agricultural equipment suppliers who are working to mechanize and modernize Ethiopian farming, while over Birr 12 million in loans have been provided to several MFIs who have subsequently on-lent our wholesale funds to an estimated 4,000 small-scale farmers and small-medium enterprises (SMEs) in their respective localities. In the past year, we have also become one of a select group of Ethiopian businesses to join the G8’s “New Alliance” Initiative, which seeks to expand private and public investment in the agricultural sectors across several African countries. As part of this initiative, the Bank has pledged to continue its high level of loan allocations to agricultural exporters, consistent with the objectives of both the New Alliance as well as Ethiopia’s own Growth and Transformation Plan.

In conclusion, the 2011/12 fiscal year has been one of continued improvement in Zemen Bank’s financial results, deposit mobilization, loan provision, and foreign exchange performance. With an ambitious Strategic Plan recently put in place to guide the Bank’s medium-term operations for the coming years, these operational and financial achievements are to be deepened even further in line with our founding vision of providing exceptional banking services to our clients while also delivering satisfactory profits and dividends to our shareholders.

Personal Loans

Zemen Bank offers personal loans to individuals with full-time employment or with other steady income sources. Loan repayments are tailored to be within the borrowers’ limits and arrangements can be made with employers to allow for direct payroll deductions until the loan is repaid.

CUSTOMER SNAPHOTS

Tiger Brands



An African consumer goods giant



The world's biggest brand



KARUTURI

GLOBAL PRESENCE. GLOBAL SUCCESS

A global agri-business powerhouse



Ethiopia's largest wine producer



A world-class airline



Pioneer in oil exploration



BGI Ethiopia

Ethiopia's biggest brewer



Ethiopia's biggest flower exporter

TECNO | mobile

Ethiopia's leading mobile phone assembler



A dominant industrial producer

**DOORSTEP
BANKING**

Save time, avoid risk and make your banking easier through Z-Doorstep Banking service!

www.zemenbank.com

www.zemenbank.com





DoorStep Banking
Check, CPO, Cash collection and delivery services

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



Welcome to Ethiopia's largest ATM network!

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.



Earn Interest Every day...

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

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

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

MODERN BANKING SERVICES

Zemen Bank is the first bank in Ethiopia to offer Multi-Channel Banking—that is, providing our customers with the option of banking at a branch, via an ATM, through the Internet, or over the phone. 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.





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.

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

We have audited the accompanying financial statements of Zemen Bank Share Company (hereinafter referred to as the Bank) for the year ended June 30, 2012, set out on pages 16 to 13, which have been prepared under the accounting policies set out on page 19 and 20

Directors' responsibility for the financial statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the historic cost convention, generally accepted accounting principles and the laws and regulations of Ethiopia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 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 judgment, 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

internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements represent fairly the financial position of the Bank as at June 30, 2012, and its profit and cash inflows for the year then ended.

Emphasis Of Matter

We draw attention to Note 26 to the financial statements which describe the circumstances related to revisions incorporated in the accompanying audited financial statements, which were first issued on October 23, 2012. Our opinion is not qualified in respect of this matter.

We have no comments to make on the report of the Board of Directors relating to the financial matters and pursuant to Article 375(2) of the Commercial Code of Ethiopia of 1960, we recommend that the above mentioned financial statements be approved.



GETACHEW KASSAYE & CO.
CHARTERED CERTIFIED ACCOUNTANTS

Addis Ababa
November 20, 2012





Financial Innovation...

...it's in our DNA.

Financial Innovation is part of our strategic imprint, or in our DNA you might say, allowing us to offer many new and cutting-edge financial solutions.

Zemen Bank is the first bank in Ethiopia to offer Multi-Channel Banking—that is, providing our customer with the option of banking at a branch, via an ATM, through the Internet, or over the phone. The options are there, the choice is yours!

We offer a professional banking relationship to all our customers backed by world-class technologies and outstanding levels of customer service.



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.
BALANCE SHEET

AS AT 30 JUNE 2012
 In Ethiopian Birr

ASSETS		<u>June 30,2012</u>	<u>June 30, 2011</u>
Cash and balances with other banks			
Cash on hand	4	94,271,178	57,611,699
Deposits with local commercial banks		12,854,572	5,078,476
Deposits with foreign banks		473,193,189	303,297,417
Deposits with National Bank of Ethiopia	5	244,959,234	341,036,530
		<u>825,278,173</u>	<u>707,024,122</u>
Items in course of collection from other banks	6	26,584,174	4,888,494
Loans and advances to customers	7	994,558,320	633,735,915
Treasury Bills		74,827,500	-
NBE Bills		390,683,887	216,483,887
Equity Investment	8	1,259,000	-
Other assets	9	34,103,499	8,043,933
Tangible Fixed Assets	3.1,10	22,774,916	22,832,809
Intangible Assets	3.2,11	24,172,628	20,903,291
		<u>2,394,242,097</u>	<u>1,613,912,451</u>
TOTAL ASSETS			
LIABILITIES			
Deposits From Customers			
Demand		395,192,346	256,640,992
Saving		1,137,899,821	731,761,013
Fixed		259,790,663	174,157,423
		<u>1,792,882,830</u>	<u>1,162,559,428</u>
Margin held on letters of credit		80,414,345	56,281,580
Other liabilities	12	97,345,479	117,938,639
Payable to Shareholders	13	106,059,276	-
Provision for taxation	19	36,939,793	36,423,326
		<u>2,113,641,723</u>	<u>1,373,202,973</u>
TOTAL LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	149,576,000	149,576,000
Share Premium		425,000	425,000
Legal reserve		55,518,571	33,925,538
Retained earnings		75,080,803	56,782,940
		<u>280,600,374</u>	<u>240,709,478</u>
TOTAL CAPITAL AND RESERVES			
TOTAL LIABILITIES, CAPITAL AND RESERVES		<u>2,394,242,097</u>	<u>1,613,912,451</u>


 Dr. Berhane Ghebray
 Chairman Of The Board


 Tsegay Tetemke
 President /CEO

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

ZEMEN BANK S.C.
PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30 JUNE 2012
 In Ethiopian Birr

INCOME	Notes	<u>June 30.2012</u>	<u>June 30, 2011</u>
Interest Income	3.3	102,833,130	60,638,462
Less: Interest expense	3.3	(66,123,160)	(41,063,046)
Net interest income		<u>36,709,970</u>	<u>19,575,416</u>
Less: Provision for doubtful loans and advances		<u>(6,641,528)</u>	<u>(5,494,767)</u>
		30,068,442	14,080,649
Service charge	14	99,681,986	87,354,894
Commissions		2,065,927	849,967
Net gain on foreign exchange dealings and fluctuations		57,446,887	65,648,552
Other income	3.5,15	<u>4,592,887</u>	<u>3,183,735</u>
		<u>193,856,129</u>	<u>171,117,797</u>
EXPENSES			
Salaries and benefits	16	23,089,334	15,582,974
Rent		5,894,952	5,614,804
Depreciation and amortization		13,199,692	12,250,631
General and administrative	17	18,981,475	15,842,977
Loss and disposal of software		-	200,991
Directors' monthly allowances		178,000	230,101
Audit fee		143,750	112,700
Special audit fee		57,000	150,000
Special Provision	23	<u>9,000,000</u>	<u>-</u>
		<u>70,544,203</u>	<u>49,985,178</u>
PROFIT (LOSS) BEFORE TAXATION		123,311,926	121,132,619
Provision For Taxation	19	<u>(36,939,793)</u>	<u>(36,423,326)</u>
PROFIT (LOSS) AFTER TAXATION		86,372,133	84,709,293
Transfer To Legal Reserve		<u>(21,593,033)</u>	<u>(21,177,323)</u>
NET PROFIT AFTER TAX AND LEGAL RESERVE		64,779,100	63,531,970
Allocation for Promoters	20	-	(6,353,197)
Board of Directors' remuneration	21	<u>(383,333)</u>	<u>(395,833)</u>
Transfer to retained earnings-current year income		<u>64,395,767</u>	<u>56,782,940</u>
Transfer to retained earnings-previous years' income	20	<u>10,685,036</u>	<u>0</u>
Earnings Per share	22	<u>577 (57.7%)</u>	<u>581 (58.1%)</u>

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

ZEMEN BANK S.C.
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2012
 In Ethiopian Birr

INCOME	June 30,2012	June 30, 2011
Cash Flow from Operating Activities		
Profit before tax	123,311,926	121,132,619
Depreciation and amortization	13,199,692	12,250,631
	136,511,618	133,383,250
Decrease (Increase) in items in course of collection	(21,695,680)	9,614,323
Decrease (increase) in other assets	(26,059,566)	5,447,462
(Increase) in loans and advances to customers	(360,822,405)	(255,815,811)
Increase in demand deposits	138,551,354	108,269,397
Increase in saving deposits	406,138,808	422,903,331
Increase in fixed deposits	85,633,240	(56,637,963)
Increase in margin held on letters of credit	24,132,765	(74,117,548)
Increase in other liabilities excluding promoters' and directors' share in profit	(10,291,457)	50,728,495
Income tax Paid	(36,423,326)	(18,144,206)
Net Cash Inflow/(Outflow) from Operating Activities	335,675,351	325,630,730
Cash flow from investing activities		
Purchase of fixed assets	(6,453,854)	(8,517,320)
Investment in intangible assets	(9,957,282)	(8,902,836)
Treasury Bills Purchased	(74,827,500)	-
Increase in NBE bills purchased	(174,200,00)	(216,483,887)
Equity Investment	(1,259,000)	-
Net cash received from (used in) investing activities	(266,697,636)	(233,904,043)
Cash Flow from Financing Activities		
Increase in shareholders payable	106,059,276	-
Proceeds from issue of share capital	-	29,000,024
Share premium collected	-	425,000
Dividend Paid	(56,782,940)	(25,269,491)
Net cash received from (used in) financing activities	49,276,336	4,155,533
Net Increase in Cash For the Year	118,254,051	95,882,220
Cash Balance at the Beginning of the Year	707,024,122	611,141,902
Cash Balance at the End of the Year	825,278,173	707,024,122

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2012
 In Ethiopian Birr

1. BACKGROUND

Zemen Bank is a privately owned commercial bank established in 2008 in accordance with the "licensing and supervision of banking business proclamation No. 84/1994" of Ethiopia to undertake commercial banking activities.

The bank obtained its license from the National Bank of Ethiopia (NBE) on 17 June 2008 and started its business activities on 2 October 2008, in accordance with the NBE's letter of 29 September 2008.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the historical cost convention and Generally Accepted Accounting Principles (GAAP). The Bank maintains its accounting records in accordance with Ethiopian banking and accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with GAAP. The financial statements have been prepared on the going concern basis.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Fixed assets

Fixed assets are stated at cost, less depreciation. Depreciation is applied on a reducing balance method using the following annual rates:

Computer hardware and software	25%
Furniture and fixtures	20%
Office and other equipment	20%
Motor vehicles	20%

3.2 Intangible assets

Expenditure incurred before the commencement of operations is treated as pre-operational costs and amortized on the straight-line method for an expected useful life of 5 years.

SWIFT implementation software are treated as intangible assets and amortized on a straight-line basis over an expected useful life of 5 years.

3.3 Interest income and expenses

Interest income and interest expenses are accounted for on the accrual basis.

3.4 Bonus

Bonus and compensation for services of the bank's employees are accounted for when paid.

3.5 Other income

All other income is accounted for at the time of completion of related banking transactions

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2012

In Ethiopian Birr

3.6 Conversion of foreign currencies

(i) Foreign currencies denominated transactions are converted into Birr at the prevailing rates of exchange and realized foreign exchange gains or losses are reflected in the profit and loss account.

(ii) Year-end balances of foreign currencies on hand and with correspondent banks are converted into Birr at the closing buying rates on the balance sheet date.

3.7 Off-setting

Financial assets and liabilities are off-set and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recorded amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.8 Provisions for loans and advances

Loans and advances are financial instruments originated by the bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses. Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions 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 SBB43/2008 in determining the extent of provisions for impairment losses. The Directive classifies loans and advances into the following:-

i Pass Loans

Loans and advances in this category 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.

ii Special Mention

Any loan or advance past due 30 days or more but less than 90 days is classified under this category.

iii Substandard

Non-performing loans or advances past due 90 days or more but less than 180 days is classified under this category.

iv Doubtful

Non-performing loans or advances past due 180 days or more but less than 360 days is classified as doubtful.

v Losses

Non-performing loans or advances past due 360 days is classified as loss.

As per the Directive, the provision for impairment losses are determined as follows:-

No.	Loan Category	Extent of provision required
1	Pass loans	1% of the outstanding loan balance
2	Special mention loans	3% of the outstanding loan balance
3	Substandard loans	20% of the net loan balance
4	Doubtful loans	50% of the net loan balance
5	Loss loans	100% of the net loan balance

Note:- Net loan balance is outstanding loan balance less net recoverable value of collateral.

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2012

In Ethiopian Birr

4. CASH ON HAND

		June 30, 2011
Local currency	83,200,121	51,665,258
Foreign currency	11,071,057	5,946,441
	94,271,178	57,611,699

5. DEPOSITS WITH NATIONAL BANK OF ETHIOPIA

Statutory reserve balance	178,000,000	180,000,000
Payment and settlement account	66,959,234	161,036,530
	244,959,234	341,036,530

6. ITEMS IN COURSE OF COLLECTION FROM OTHER BANKS

Outward bills purchased	587,567	1,402,321
Outward documentary bills purchased	25,996,607	486,173
Claim on Head Office and branch	-	3,000,000
	26,584,174	4,888,494

7. LOANS AND ADVANCES TO CUSTOMERS

Agriculture	5,115,082	2,591,788
Manufacturing	110,239,492	112,020,490
Domestic trade and services	78,562,787	94,140,778
Transport and communication	67,380,959	58,027,981
Hotel and tourism	54,008,637	47,075,803
Export	324,279,971	150,876,757
Import	200,356,330	66,364,552
Building and construction	97,571,747	74,681,305
Mines, Power, and Water Resource	5,272,230	-
Financial Institutions	10,403,608	-
Personal	33,127,199	25,142,842
Others	26,372,541	14,304,354
	1,012,690,583	645,226,650
Less: Provision for doubtful debts and advances	(18,132,263)	(11,490,735)
	994,558,320	633,735,915

8. EQUITY INVESTMENT

All banks operating in Ethiopia formed a company called EthSwitch S.C to establish a central switch for card banking. The company has a subscribed capital of Birr 75,465,000.00 and Zemen Bank has subscribed for shares of Birr 5,030,000.00. The Bank has paid Birr 1,259,000.00 during the fiscal year and the rest will be paid in the next fiscal year.

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2012

In Ethiopian Birr

9. OTHER ASSETS		<u>June 30, 2011</u>
Debtors		
- Interest receivables- NBE bills	9,883,932	1,158,242
- Dashen Bank S.C	3,165,420	-
- Withholding receivables	63,550	4,620
- Access Capital S.C.	-	4,704
- Others	247,696	146,730
Less: Provision for doubtful debts other than loans	<u>(87,000)</u>	<u>(87,000)</u>
	<u>13,273,598</u>	<u>1,227,296</u>
Prepayments		
- Office rent	8,143,015	148,487
- Banking Software	3,346,158	4,286,260
- Head Quarter Buildings	13,314,240	
- Others	2,190,955	415,300
Less: Amount Held In Blocked Account For Head Quarter Building	<u>(11,289,600)</u>	<u>-</u>
	<u>15,704,768</u>	<u>4,850,047</u>
Supplies stock		
-Stationery	699,594	866,613
-Check books & CPOs	511,807	580,179
-Uniforms	27,899	21,540
-Furniture and fixtures in stock	12,473	101,605
-Office and other equipment in stock	340,347	85,854
-Computer and accessories in stock	2,023,467	154,300
-Sundry materials	<u>406,496</u>	<u>156,499</u>
	<u>4,022,083</u>	<u>1,966,590</u>
Acquired Properties	<u>1,103,050</u>	<u>-</u>
	<u><u>34,103,499</u></u>	<u><u>8,043,933</u></u>

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2012

In Ethiopian Birr

10. TANGIBLE FIXED ASSETS

Cost	Balance <u>30.6.2011</u>	Additions	Disposal	Balance <u>30.6.2012</u>
Computer hardware	16,748,033	4,023,365	(162,259)	20,609,139
Furniture and fixtures	9,334,383	665,809	(23,946)	9,976,246
Office and other equipment	4,204,769	1,006,494	(25,020)	5,186,243
Motor vehicles	<u>9,021,104</u>	<u>856,941</u>	-	<u>9,878,045</u>
	<u>39,308,289</u>	<u>6,552,609</u>	<u>(211,225)</u>	<u>45,649,673</u>
Accumulated depreciation				
Computer hardware	7,612,248	3,272,073	(91,400)	10,792,921
Furniture and fixtures	3,739,517	1,249,207	(9,306)	4,979,418
Office and other equipment	1,446,720	750,257	(11,764)	2,185,213
Motor vehicles	<u>3,676,995</u>	<u>1,240,210</u>	-	<u>4,917,205</u>
	<u>16,475,480</u>	<u>6,511,747</u>	<u>(112,470)</u>	<u>22,874,757</u>
Net Book value	<u>22,832,809</u>			<u>22,774,916</u>

11. INTANGIBLE ASSETS

Cost	Balance <u>30.6.2011</u>	Additions	Balance <u>30.6.2012</u>
Computer software	16,603,943	7,616,986	24,220,929
Capitalized expenditure	8,379,290	-	8,379,290
SWIFT implementation cost	577,968	-	577,968
Software Under Progress	<u>4,903,539</u>	<u>2,340,296</u>	<u>7,243,835</u>
	<u>30,464,740</u>	<u>9,957,282</u>	<u>40,422,022</u>
Accumulated Amortization			
Computer software	4,634,957	4,896,493	9,531,450
Capitalized expenditure	4,608,609	1,675,858	6,284,467
SWIFT implementation cost	<u>317,883</u>	<u>115,594</u>	<u>433,477</u>
	<u>9,561,449</u>	<u>6,687,945</u>	<u>16,249,394</u>
Net book value	<u>20,903,291</u>		<u>24,172,628</u>

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
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 FOR THE YEAR ENDED 30 JUNE 2012
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11.1 Capitalized expenditure cost of Birr 8,379,290 represents pre-operational costs after deduction of commission on share subscriptions and deposit interest income on share proceeds.

12. OTHER LIABILITIES

June 30, 2011

Dividend Payable	5,316,263	8,248,542
Tax payables	1,450,733	595,214
CPO payables	57,259,795	83,967,130
Exchange payable to NBE	7,075,812	4,470,763
Accruals	11,511,534	6,667,010
Allocation for Promoters	-	9,263,469
Directors' share of profit	383,333	395,833
Miscellaneous Payable	5,154,575	4,330,678
Gift Cards	193,434	-
Special Provision	<u>9,000,000</u>	<u>-</u>
	<u><u>97,345,479</u></u>	<u><u>117,938,639</u></u>

13. SHARE CAPITAL

Subscribed	<u>149,576,000</u>	<u>149,576,000</u>
Paid-up	<u>149,576,000</u>	<u>149,576,000</u>

13.1 A total of Birr 100 million in funds that was collected from the sale of shares in November and December 2011 following the Bank's Shareholders Meeting of September 2011 is kept under a payable account in line with the First Instance Court decision passed on July 2, 2012. This court decision ruled against the Birr 100 million in funds being counted as paid-up capital on account of the procedures followed during the capital raising, and as these funds will be returned to shareholders they are presented as a payable item due to shareholders. In addition, a total of Birr 6,059,276 that corresponds to the premium collected related to the sale of these shares is also included under a payable account in accordance with the same court decision.

13.2 Related to the above court case, the Minutes of the Annual General Meeting of Shareholders is not yet registered at the Documents Authentication and Registration Office.

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14. SERVICE INCOME

Service charges - foreign	99,396,189	87,119,398
Service charges - local	<u>285,797</u>	<u>235,496</u>
	<u>99,681,986</u>	<u>87,354,894</u>

15. OTHER INCOME

		<u>2011</u>
Loan processing fee	1,871,586	1,523,225
Overdraft protection fee	178,878	127,308
Balance maintenance fee	1,517,315	1,028,228
SWIFT charge	32,315	23,200
Documentation fee	601,251	-
Miscellaneous	<u>391,542</u>	<u>481,774</u>
	<u>4,592,887</u>	<u>3,183,735</u>

16. SALARIES AND BENEFITS

		<u>June 30, 2012</u>
Salaries	13,161,625	9,672,544
Representation allowances	400,837	454,245
Overtime	264,714	90,373
Transport allowances	893,812	702,399
Mobile telephone allowances	97,518	91,234
Provident fund	1,953,913	1,407,573
Staff insurance and medical expenses	493,431	347,988
Training and education	791,146	585,394
Laundry allowance	102,508	62,298
Uniforms	430,513	202,788
Cash Indemnity	601,959	-
Housing allowance	6,000	212,427
Acting Allowance	10,600	-
Leave pay	799,522	335,916
Bonus	<u>3,081,236</u>	<u>1,417,795</u>
	<u>23,089,334</u>	<u>15,582,974</u>

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

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**NOTES FORMING PART OF THE
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17. GENERAL AND ADMINISTRATIVE EXPENSES

		<u>June 30, 2011</u>
Janitorial Services	267,948	180,645
Telephone, fax and internet	1,059,386	1,059,767
Stationery and printing	1,042,216	815,492
Advertisements	4,404,350	1,551,592
Annual License and registration fees	3,332,357	2,606,479
Maintenance and repair	787,924	581,335
Annual General Meeting	1,077,631	2,161,712
Utilities	299,614	218,102
ATM cards	76,161	49,968
IT service provider fee	232,996	1,526,386
SWIFT and correspondent charges	1,207,768	1,057,266
Commissions	149,451	80,487
Consultancy	127,307	12,500
Fuel and lubricants	848,051	575,757
Insurance	466,288	278,286
Membership and Subscriptions	100,038	930,147
Per-diem and travels	585,406	775,404
Provisions for doubtful debts other than loans	-	87,000
Loans		
Visa Charges	1,164,098	
Loss On Disposal Of Assets	18,142	-
Stamp Duty Charges	1,491	-
Entertainment	467,236	205,243
Donations	200,000	282,690
Sundries	<u>1,065,616</u>	<u>806,719</u>
	<u>18,981,475</u>	<u>15,842,977</u>

18. EMPLOYEE BENEFIT SCHEMES

The Bank has a provident fund scheme for all its permanent employees hired before July 2011, for which the Bank contributes 15% of basic salary, and employees contribute 7%. All employees hired after June 2011 are included in private pension scheme as per the Private Organization employees Pension Proclamation No. 715/2011 issued in June 2011.

All other employee benefits are in accordance with the Labor Proclamation No.377/2003 and Amendment No. 494/2006.

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19. PROVISION FOR TAXATION

Profit (Loss) before tax		123,311,926
Add: Donations	200,000	
Entertainment	467,235	
Non Deductible Representation allowance	28,323	
Special Provision	9,000,000	9,695,558
Less: Interest on local deposits	(1,151)	
Interest on foreign deposits	(217,110)	
Interest on Treasury Bills	(967,076)	
Interest on NBE Bills	(8,725,691)	(9,911,028)
Taxable profit		123,096,456
Profit tax at 30%		36,928,937
Tax on interest of foreign deposits at 5%		10,856
Provision for taxation		36,939,793

20. ALLOCATIONS TO PROMOTERS AND TO SHAREHOLDERS WHO HAD MADE UPFRONT PAYMENTS ON THEIR SUBSCRIBED SHARES

Ten percent of the net profit after tax and legal reserve had been allocated to Promoters based on income earned in FY 2009/10 and FY 2010/11. This amounted to a total of Birr 9,263,469 and had been held as a payable account within Other Liabilities. However, in line with the First Instance Court decision passed on July 2, 2012, which ruled against the legal basis for this allocation to Promoters, the Bank is returning back to retained earnings an amount of Birr 9,263,469.

Besides the allocation for Promoters, shareholders who fully paid their obligations when initially buying the Bank's shares had been allocated an extra 5 percent of the value of their shares. However, the First Instance Court decision passed on July 2, 2012, also ruled against the legal basis of this extra profit allocation to shareholders who had settled their obligations upfront when buying shares. The Bank is thus returning back to retained earnings an amount of Birr 1,421,567.

21. BOARD OF DIRECTORS' REMUNERATION

The Board of Directors remuneration was computed as per the directive issued by NBE in January 2011.

22. EARNINGS PER SHARE

Earnings per share for the year is calculated on the basis of the average number of shares outstanding during the year.

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23. SPECIAL PROVISION

In line with the First Instance Court decision passed on July 2, 2012 (see Note 13), the Bank is holding Birr 9 million as a special provision. This special provision is expected to be paid to individuals and organizations who had purchased new shares, and is intended to serve as a compensatory payment for the use of their funds by the Bank.

24. COMPARATIVE FIGURES

Some Comparative Figures Have Been Reclassified For Better Presentation

25. CONTINGENT AND MEMORANDUM ITEMS

25.1 Guarantees issued to customers	<u>67,843,857</u>	<u>17,088,987</u>
25.2 Commitments		
-Letters Of Credit	438,332,885	232,252,537
Less: Margins Held On Letters Of Credit	<u>(80,414,345)</u>	<u>(56,281,580)</u>
	<u>357,918,540</u>	<u>175,970,957</u>
- Inward Bills For Collection	<u>126,016,657</u>	<u>30,402,311</u>
- Overdrafts	<u>Nil</u>	<u>Nil</u>
- Loans	<u>82,745,461</u>	<u>58,879,763</u>
25.3 Accrued Interest Receivable On Non Performing Loans	<u>1,159,244</u>	<u>866,909</u>

26. OTHER MATTERS

The audited financial statements issued on October 23, 2012, have been amended and re-issued since the bank has dropped its appeal of the First Instance Court's ruling referred to in Note 13. The amount of Birr 100 million in additional paid-up capital plus Birr 6,059,276 premium has been reversed and re-classified under a payable to shareholders account.

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



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