ANNUAL REPORT 2021

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Zemen
BANK

... IOCAL KNOWLEDGE ...
INTERNATIONAL STANDARDS!

CONTENTS

VISION:

To be "Ethiopia's Five - Star Bank."

MISSION:

To deliver our clients the most distinctive banking experience in Ethiopia through a mix of local know-how and world-class standards.

To ensure for our staff an engaging, rewarding, and attractive work environment alongside a best-in-industry compensation scheme.

To provide our shareholders satisfactory returns on a sustainable basis.

BOARD OF DIRECTORS

Ermias Eshetu
Board Chairman

Eneye Bemir
Deputy Board Chairperson

Prof. Abebe Dinku
Board Director

Ashenafi Embeza
Board Director

Bizuneh Bekele
Board Director

Mieraf Shewaye
Board Director

Snafikish Tekle
Board Director

Tilaye Kassahun (Dr.)
Board Director

Wondossen Mulugeta (Dr.)
Board Director

EXECUTIVE MANAGEMENTS

Dereje Zebene
President/CEO

Meseret Wondim
Vice President Corporate Resource Management

Amha Tadesse
Vice President
Information Technology

Asrat Tadesse
Vice President
Customer Services

Addis Woldecherkos
Vice President
Operations

OUR VALUE INCLUDE:

upholding the highest standards, being progressive and innovative

www.zemenbank.com www.zemenbank.com

SENIOR MANAGEMENTS

Dereje Mihretu
Assistant Vice President Credit

Tewahido Taffese
Director Knowledge & Innovation

Yohannes Getachew
Director Internal Audit

Fikru Tabor
Director Risk & Compliance Management

Lemma Alemayehu
Director Finance

Elias Kinfegebriel
Director Human Resource

Biniyam Abreham
Director International Banking

Bayush Berhanu
Director Multichannel Banking

Birhanu Beyene
Director
Legal Counsellor

Kassahun Merawi
Director
Engineering

Taye Nigatu
Director
Facility Management

Tesfaye Salilew
Director E-Channel Managment

Aklilu Sisay
Director Personal & Business Banking

HaileYesus Mezgebu
Director IT Project

Phylipos Mitiku
Director Core Banking & Software Dev't

Michael Tsegaye
Director Corporate & Institutional Banking

CHAIRMAN'S STATEMENT

Year ended 30 June 2021

Dear Shareholders,

It gives me great pleasure to present to you the annual report of Zemen Bank S.C for the 2020/21 FY. During the year under review, Zemen Bank has witnessed yet another successful year registering a remarkable outcome in all business activities and financial performance measures.

In the wake of COVID-19 outbreak, high uncertainty surrounded the global economy outlook and trade activities indicating much reserved growth prediction for the economies through-out the globe. Despite introduction of vaccines and opening up of various economies, the numerous logistics and manufacturing backlogs created due to Covid limited growth forecasts. The recent release of the IMF's world economic outlook (April 2021), report indicates that the global economy would grow by 6% in 2021 and 4.4% in 2022 whereas the volume of world merchandise trade is expected to increase by 8% in 2021 as WTO (2021) estimates.

The Ethiopian economy has also been suffering from the adverse effects of the pandemic as has been observed globally. What makes the Ethiopian case different is that the risk of economic slowdown has been less than anticipated. However, the economic slowdown caused by the pandemic has been exacerbated by severe foreign exchange shortage, high inflationary pressure, external and domestic debt stress combined with political instability, war in Northern region and internal conflicts.

Specifically, fast growing inflationary pressure has been the major macroeconomic challenge during the year and putting Ethiopia home to one of the top ten inflationary economies in the world. Food inflation has soared to 28.7 percent taking the major share of the countrywide general price level while non-food items inflation reached 19 percent. This implies, higher cost of living, lower purchasing power, less savings and negative real interest rate causing a considerable distortion in the financial sector.

The recent inflation is mainly fueled by the fast and continued devaluation of the Birr that has, over the past year depreciated by 24.8 percent against the US Dollar. Similarly, the gap between the parallel market and the official rate has been widening.

Esteemed Shareholders

In the external sector, unlike the stagnant experience for the past decade, Ethiopia has registered the highest export record of USD 3.62 billion in the concluded fiscal year, which is more by 20% when compared to the previous year earnings. Similarly, Ethiopia spent USD 13.9 billion on imports, which is less by USD 2.8 billion from the preceding year of USD 16.7 billion which helped the trade deficit to improve from USD 12.9 billion to USD 10.8 billion. The economy has also attracted 3.9 billion dollars in FDI during the just completed fiscal year. The country has also obtained remittance inflow of above 3 billion USD over the last 12 months of the concluded fiscal year, which is the highest amount of remittance than in the last two years despite COVID-19 pandemic.

With regard to the financial regulatory environment, in an effort to further transform the Ethiopian payments ecosystem, the National Bank of Ethiopia has been developing the first ever three-year National Digital Payments Strategy (NDPS); a strategy that has the potential to re-shape the future payment ecosystem in Ethiopia and stimulate development of the financial sector as a whole.

In addition, to the demonetization of the Birr which took place in September 2020, NBE during this fiscal year, has introduced various policy amendments, like cash holding and withdrawal limit, retention and utilization of export earnings and inward remittance, establishment and operation of foreign currency account for non-resident Ethiopian and non-resident of Ethiopian Origin, and a ten-fold increase on the minimum capital requirement for banks are the major ones.

Looking at the performance of the financial sector, despite the challenges encountered during the fiscal year (prevalence of COVID-19, slowdown of economy and business activities, severe inflation, acute Forex shortage, political and social instabilities, internal conflicts and others), the Banking industry has continued to register a steady growth on major performance indicators such as deposit, loan and advances, asset and capital, profitability and branch expansion.

The 2020/21 fiscal year has also been a successful year for Zemen Bank. The new Board of Directors has smoothly transitioned from the previous Board at the end of the budget year and has deployed fulltime effort working closely with management to ensure shareholder value and the bank's sustainable growth. Zemen Bank, during the year, amassed a record high revenue of Birr 2.85 Billion which is a 33.6 Percent increase from the previous year record. Deposit and loans grew by 31.7 percent and 43.9 percent respectively. With regards to loan quality, the Bank's non-performing loan ratio stood at 2.25 percent which is way below the 5% regulatory requirement.

Esteemed Shareholders,

Last year's fruitful business activities have allowed the bank to earn a gross profit (before depreciation and provision) of Birr 1.46 billion; which is remarkably above from last year same period by birr 405.04 million (38%).

The liquidity position of the bank stood at 31.7% above the NBE minimum requirements of 15% while the capital adequacy ratio of the bank stands at 34 percent, which is more than the minimum regulatory requirement of 8 percent. All these are indicators that our bank is growing in a healthy and sustainable manner adhering to all requirements set by the regulator National Bank of Ethiopia.

Despite the ever-increasing challenges in the Banking sector and broader economy, leveraging on our existing competitive advantages, Zemen will continue to innovate, and focus on sustainable business strategy to increase our Market share, get closer to our customers and create shareholder value while upholding our strong brand.

Finally, on behalf of the Board of Directors and myself, I would like to extend my earnest gratitude to our esteemed customers, Shareholders, the National Bank of Ethiopia, the entire Zemen family, and other stakeholders for their continued support, contributions, trust and confidence in our Bank's business journey. I truly believe that the commitment demonstrated thus far will continue in the future.

Thank you,

Ermias Eshetu
Chairperson, Board of Directors

MESSAGE FROM THE PRESIDENT/CEO

Dear Shareholders,

I have the privilege and honor to present to you the 2020/21 financial year performance report of Zemen Bank S.C.

We have commanded another outstanding achievement despite the various challenges that came our way such us the prevalence of COVID-19, global and domestic economic challenges, the war in the northern part of our country and the stiff competition in the industry. Our proactive approach towards strengthening our core and technological capabilities along with focused execution of planned activities for the year helped us to overcame the odds. I am proud of the commendable efforts and character displayed by all team members of Zemen family.

Significant investment in digital banking, our focus on building granularity across business segments and optimizing available resources helped us in delivering strong operational performance. We continue to remain prudent in fortifying our balance sheet and enhance our capital.

During the year, we witnessed consistent growth on deposits, loans and advances as well as foreign exchange inflows. Our concerted effort towards sustainable resource mobilization resulted in 31.7% deposit growth. Loans and advances grew by 43.9%. Capital grew with 52% reaching Birr 2.7 billion which is in the right direction to hit the central bank target of Birr 5 billion two years ahead of the date set. The operating profitability continued to remain high with 22.21% growth in interest income and 36.82% growth with operating profit. Our revenue from fees and charges continued to play out with the share of 27.37%. Over the year, we continued to provide adequate provisioning to ensure that our balance sheet remains resilient across cycles. The Bank's non-performing assets remains 2.25%.

Dear shareholders

As an organization, we have been constantly evolving, challenging ourselves to raise the bar on innovation and strengthening our core competitiveness to transform into a future oriented Bank by delivering world class customer experience through a mix of assisted and technology based services. We will continue to focus on building a high performance culture and remaining true to our values.

As a vote of thanks, I would like to take this opportunity to express my sincere gratitude to our Board of Directors, the management, employees, esteemed customers, shareholders, partners and other stakeholders and collaborators at large without which our best achievements would not have been possible. The unreserved support and trust we have enjoyed thus far is the cornerstone for the Bank's success and believe the support and trust will remain with us for the years to come.

Stay Safe!
Dereje Zebene

Corporate and Institutional Banking (CIB)

CIB

CIB Provides banking services to multinational companies, financial institutions and institutional customers like Embassies. A dedicated Relationship Manager will be assigned.

Personal Banking

As a zemen Bank Personal Banking customer, you will earn Interest rate of 7% computed daily.
To qualify a minimum monthly balance of Birr 5,000 is required.

PERSONAL BANKING

DIRECTORS' REPORT

Fiscal Year 2020/21

Zemen Bank's Board of Directors is pleased to present the 2020/21 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.

Macroeconomic Developments

According to the World Bank Global Economic Prospects (June 2021), the global economy is expected to expand by 5.6 percent in 2021, but will slow down to 4.3 percent in 2022, where recovery will also be highly uneven among nations. Growth is concentrated in few advanced countries, while Emerging and Developing Economies (EMDEs) have been lagging. Most of the advanced economies are expected to regain their pre-pandemic per capita income level by end 2022. Among emerging markets and developing economies, China is anticipated to rebound to 8.5 percent annual growth by 2022.

Output growth in Sub-Saharan Africa is forecasted to pick up to 2.8 percent in 2021 and 3.3 percent in 2022, underpinned by stronger external demand from China and the United States, increasing commodity prices, and containment of COVID-19. Even though strong recovery is projected, the global outlook remains exposed to significant downside risks, which include the possibility of large COVID-19 waves in the context of new variants and fiscal stress.

The Ethiopian economy has also been challenged by the impact of COVID-19 pandemic since last year, on top of unanticipated events including political instability to the north in particular. The World Bank Global Economic Prospects Report (June 2021), forecasts that the Ethiopian economy will grow by 2.3 percent in 2021, and the growth rate will rebound to 6 percent by 2022. While the government has projected that the economy will grow by an average of 10 percent each year for the period 2021 - 2030, actual growth recorded was around 6 percent in 2021.

Inflation remains to be one of the major macroeconomic challenges over the past decade increasing overtime to reach 24.5 percent in June 2021. Non-food inflation reached 19 percent while food inflation soared to 28.7 percent — being the major contributor for the countrywide price hike in goods and services. Apart from making living cost challenging and long-term investments difficult, high inflation brings all interest rates down to negative causing a considerable distortion in the fiscal sector. The recent inflation is mainly aggravated by the fast devaluation of the Birr which has depreciated by 24.8 percent against the US Dollar during the year.

During the year ending June 2021, Ethiopia has recorded its highest export revenue of USD 3.62 billion; which is 20 percent higher than the previous year performance, however short by 7.2 percent from the planned target of USD 3.9 billion. The country's import spending had reached USD 13.9 billion, which is less by USD 2.8 billion from the preceding year of USD 16.7 billion. In other words, the trade deficit has been improved from USD 12.9 billion to USD 10.8 billion due to lower import payments and higher merchandise export receipts for the year 2020/21.

On another note, Ethiopia attracted USD 3.9 billion in Foreign Direct Investment (FDI) during the same period while the overall Balance of Payments (BOP) deficit has narrowed down, and gross foreign reserve coverage of the country stood at 2.4 months of imports of goods and non-factor services as at June 30, 2021.

Despite a record export performance, improved remittance and FDI inflow, the risk of external debt distress remains high.

Developments in the Financial Sector

Looking at other financial sector developments, the just concluded year has also been a year where NBE has amended various policies, such as cash holding and withdrawal limit, retention and utilization of export earnings and inward remittance, the establishment and operation of foreign currency account for Ethiopians, non-resident Ethiopians and non-resident Ethiopian Origin on top of the demonetization of the currency.

Furthermore, digital transformation adoption and growth has become imperative and is expected to further expand. Especially, in light of the ongoing financial sector reforms, entry of non-bank financial actors (such as FinTech actors), and quickly shifting customer trends are making the customer-centric approach become increasingly stronger in the banking industry. The National Bank of Ethiopia (NBE) has also been drafting strategies that aim to re-shape the future payment ecosystem in Ethiopia by stimulating development of the financial sector in general; while specifically addressing the financial and digital inclusion.

Despite the various challenges, Zemen Bank has registered remarkable growth on major operational activities such as deposit mobilization, loans and advances and international banking activities, while financial performance measures such as profitability, asset growth and capital stood at the highest since the Bank's inception.

On the non-financial performance domains like branch expansion, delivery channels, information technology, human capital employment, risk management and compliance, corporate governance and corporate social responsibilities, the Bank has also registered commendable changes.

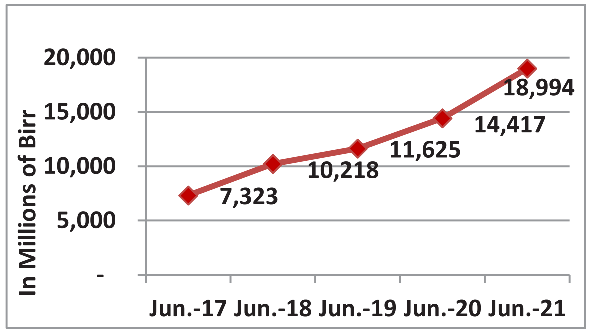
Developments on the Bank's Financial Operations

Zemen Bank has once again managed to register a remarkable growth in all three major banking operations specifically in deposits mobilization, loans, and advances as well as in foreign exchange mobilization, which are core to our business.

Deposit

Despite stiff competition in the industry, Zemen managed to grow deposit by Birr 4.5 billion or 31.7 percent with total deposits mobilized reaching Birr 18.9 billion. The deposit growth is also in line with the Bank's deposit mix plan where demand deposit constituted 40.7 percent, saving 51.9 percent and time deposits 7.4 percent. A major contributor to the deposit growth is the increase in number of account holders and modest branch network growth. During the year under review, number of account holders increased by 26,971 (31.4 percent) to reach 112,701 active account holders.

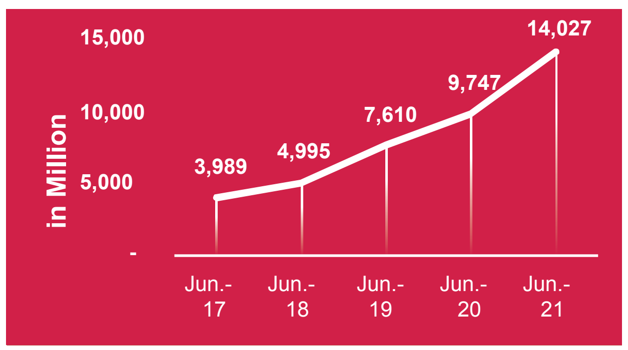
Chart 1: Deposit Trend 2017-2021



Loans and Advances

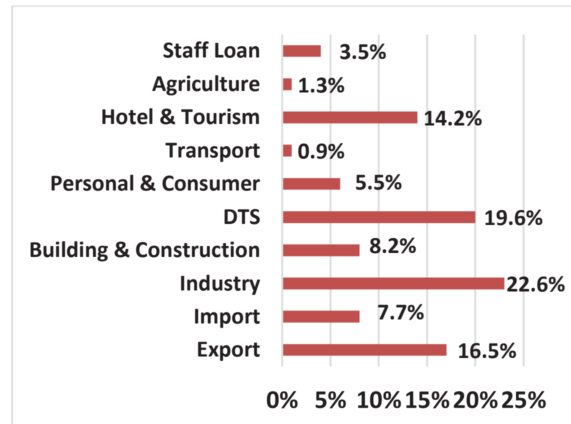
The strong growth of Deposits has positively contributed towards resource deployment raising the Bank's total earning asset to Birr 14.03 billion. During the concluded fiscal year Zemen Bank granted additional loans of Birr 4.28 billion, a 43.9 percent increase from the previous year, to meet the growing demand of credit within the Ethiopian economy.

Chart 2: Net Loan and Advances Trend 2017 - 2021



The Bank extended the loans and advances to the various sectors of the economy. Out of the gross loans and advances, Industry took a share of 22.6%, Domestic Trade and Service (DTS) 19.6%, export 16.5%, Hotel and Tourism 14.2% while other sectors in aggregate constituted 27.1%. Further, the Bank's non-performing loan ratio stood at 2.25% , which is below the Bank's target of 3% and the regulatory requirement of 5%.

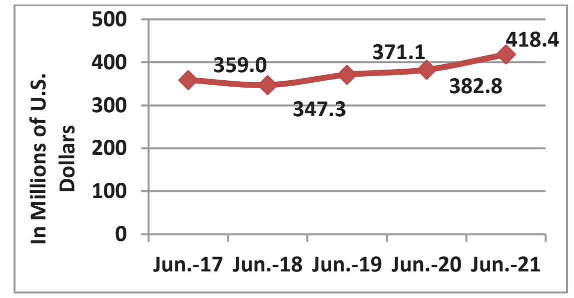
Chart 3: Loan Book Composition



International Banking

Total amount of forex inflow during the fiscal year reached USD 418.4 million, which is a record high figure since the establishment of the Bank. This is a 9.3% increase (USD 35.7 million) when compared with the same period of last year. During the concluded fiscal year, Zemen has surrendered USD 126.9 million to the NBE.

Chart 4: Forex Inflow Trend 2017 - 2021

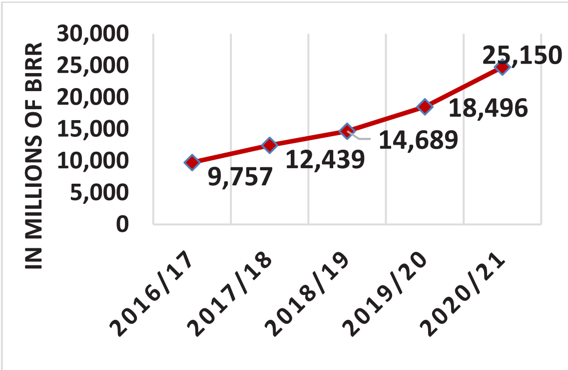


The generated foreign currency inflow is dominated by stable and appreciating currency of USD (58.6%), followed by EURO (37.3%), GBP (4%) and SEK accounted (0.1%).

Total Asset

The Bank has managed to grow its Asset base by 36% during this year. This is primarily attributed to the increment observed in earning assets i.e., loan and advances (43.9%) and deposits at local and foreign banks (37.8%). In absolute terms, the Bank's asset base as at June 30, 2021 reached Birr 25.15 billion. Moreover, in line with the Bank's prudent liquidity management practices, the Bank's liquidity ratio (liquid assets to deposit) was well above the regulatory requirement of 15% standing at 31.7% as at June 30, 2021.

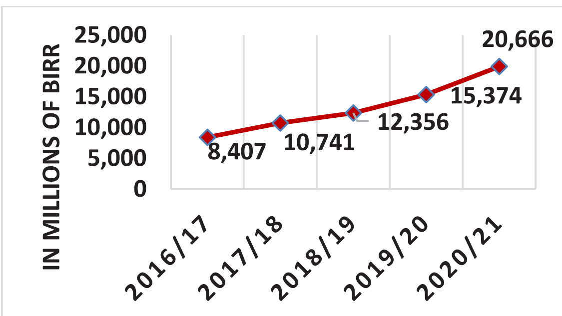
Chart 5: Total Asset Trend 2017 - 2021



Total Liability

The liability side of the Bank increased by 34.4% as compared to last year record, mainly due to the increment exhibited in customers' deposit.

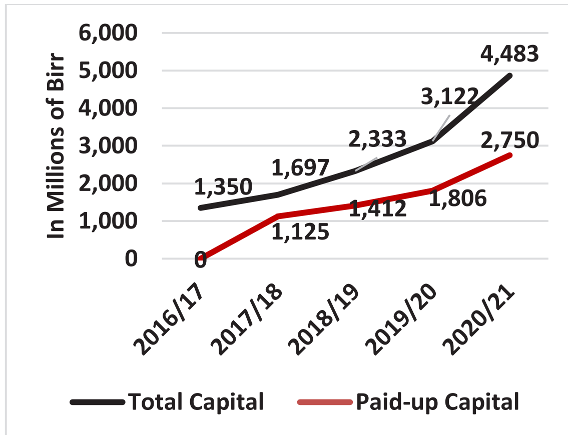
Chart 6: Liability Trend 2017 - 2021



Capital

Due to the increase in primary capital components, the Bank's total capital and reserve reached Birr 4.5 billion as of 30th June 2021, representing a growth rate of 43.6 percent when compared to same period of last year. Also, the capital adequacy of the Bank stood at 31%, which is four folds higher than the minimum regulatory requirement of 8%. The Bank's paid-up capital has jumped to Birr 2.75 billion showing an increment of Birr 943 million (52%) when compared to last year same period.

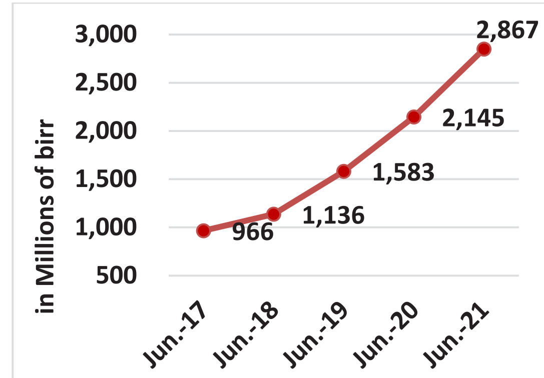
Chart 7: Capital Trend 2017 - 2021



Income

The Bank's revenue reached Birr 2.87 billion by the end of June 2021; showing an increase of Birr 721.5 million (33.6%) when compared against the prior year record. This is a Birr 327.3million (12.9%) increase from the Bank's set plan.

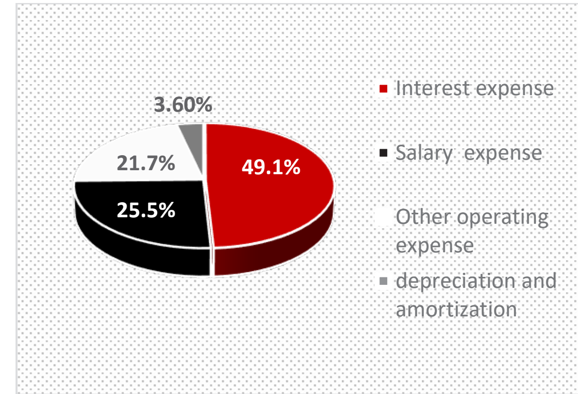
Chart 8: Income Trend 2017 - 2021



Expenditure: The aggregate expense of the Bank during the year under review was Birr 1.51 billion, which is more by Birr 371.9 million (32.6%) from last year same period and Birr 89.43 million (6.3%) more than the planed target as per with the Bank's expansion strategy.

In terms of composition, the largest share went to interest expense (49.1%); followed by salary expense stood at (25.6%), general expenses (21.7%), and depreciation and amortization (3.6%). When compared with the same period of last year, interest expense has increased by 25.3%, general expense, salary and benefits also increased by 64.1% and 29.5%, respectively.

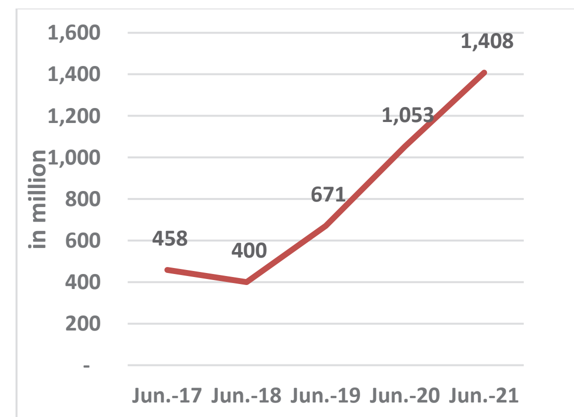
Chart 9: Expenditure Composition



Gross Profit

Zemen Bank earned a gross profit of Birr 1.41 billion (before deduction of provisions, employee incentives & other expenses), during 2020/21 budget year, which is remarkably higher than last year's record and planned target by Birr 355.0 million (33.7%) and Birr 222.76 million (19%) respectively. Similarly, the current period net profit of Birr 952.68 million exceeded that of last year by Birr 213.6 million (28.9%).

Chart 10: Gross Profit Trend 2017 - 21



Debit Card

With the launch of our multi-channel banking services,Zemen Debit Cards are now available for allaccount 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.

International Banking

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

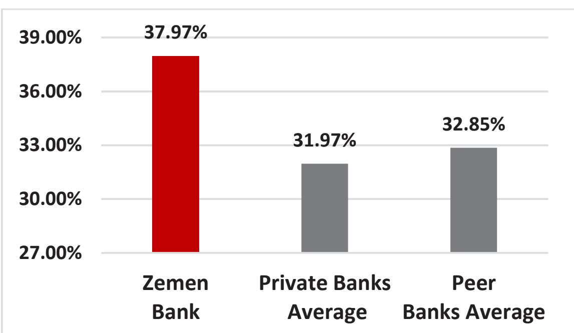
- Import and Export letters of credit
- Foreign cash and check-related services
- Remittance services to send/receive funds
- International wires and transfers
- Dollar/Euro accounts to eligible savers

Financial Soundness Indicators

Zemen continues to show a strong growth in all three important measures of financial performance and management effectiveness.

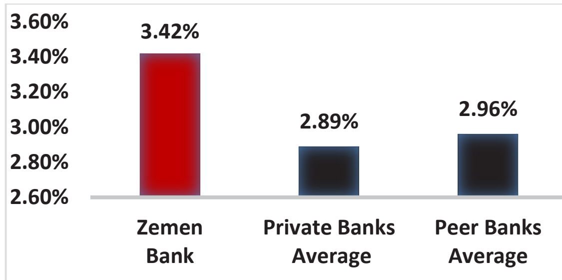
The Bank's profit after tax that reached Birr 952.68 million translates to earnings per share of 46.9%. When this is compared to the last 5-year averages EPS of the Bank, which is 38.0%, this period performance stands out as one of the highest among the private and peer banks' average which reflects the invaluable efforts, commitment and drive of the Bank's staff, management and the exiting Board who has directed and served the Bank over the past three consecutive years.

Chart 11: Earning Per Share (EPS)



Return on Average Assets (ROAA) reached 4.36 %; revealing a slight decline from last year performance of 4.45%. The past five-years average return on asset indicates that Zemen's performance (3.42%) is still above the private banking sector as well as peer banks average standings of 2.89% and 2.96%, respectively.

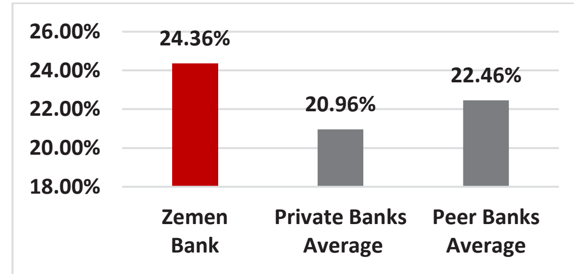
Chart 12: Return on Asset (ROA)



Return on Average equity, which is a measure of rate of return against average capital, showed a decline and stood at 25.1%. While the prior year record for Return on Average Equity was 27.1%, this is mainly due to a significant growth of the Bank's capital that took place during the year under review.

The past five-years average return on equity shows that Zemen's performance (24.4%) is remains above the private banking sector as well as peer banks average standings of 20.96% and 22.46% respectively.

Chart 13: Return on Equity (ROE)



Proposal on Dividend Payout

After making appropriate tax, legal reserve and Board remuneration deductions from the gross profit, a net profit of Birr 657.17 million has been transferred to retained earnings. The Board of Directors proposes 3% (Birr 19.7 million) to be retained by the Bank and the remaining amount of Birr 637.47 million to be distributed to shareholders in the form of dividend payments. Based on the year-average paid-up capital of the Bank, the proposed dividend per share has reached 31.37%.

Other Business Developments

In addition to the noticeable improvements in its operational as well as financial results, Zemen continued to improve its distribution channels and various business development activities:

Branch Expansion

The banking sector's total number of branches reached 6,727 as at June 30, 2021. From the total reported figure, private banks constitute 5,027 branches (74.7%), while Zemen has opened 11 new branches in the concluded fiscal year to reach 63 branches.

Multi-Channel Banking

In the period under review, 25 additional ATMs have been deployed raising the total number of ATMs to 93; this positively contributes to customers' convenience through (24*7) service, minimizing branch operation overload, and increased accessibility via digital platforms.

On the other hand, additional 62 POS devices were deployed at different terminals in the reviewed period. As a result, the total number of POS device deployments reached 170, more by 57% when compared to last year's count of 108 POS machines.

Information Technology

During the fiscal year 2020 - 21, about 12 IT projects, more specifically: ATM and POS Switch Upgrade; Internet Banking Upgrade; Mobile App; USSD; Contactless Acquiring – Visa cards on POS and ATM; Contactless Acquiring – MasterCard cards on POS and ATM; MasterCard Prepaid Travel card;

CORPORATE LOANS

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-terms line of credit, project finance loans.

EMV/Chip Card Rollout; Integration with DSTV; Integration with Ethio Telecom – Post Paid bill payment and Air Time Top Up; Incoming Transfer from Other Banks; and Outgoing Transfer – through RTGS and EthSwitch have been initiated and/or implemented.

The Bank continues to invest on technology in order to remain the leading and most reliable multi-channel banking service provider in the country.

Human Capital Development

In line with the Bank's policy of recruiting competent professionals from the market with strong commitment and the strategic approach of upgrading staff capabilities, the Bank continues to focus on recruiting the most talented and experienced professionals. The Bank's staff headcount as at 30th June 2021 stood at 1,151.

In order to successfully attain Human Capital development Strategy of the Bank, training of staff continues to be given special attention. Accordingly, 1,311 staff have participated in different training and development programs of which, 90 have been enrolled in 4 rounds of the Bank's Young Graduate Trainee Program and others participated in formal Education, Certifications, short term international, local and online trainings.

Furthermore, as part of building organizational culture across the Bank, the Bank prepared annual employee awards that are presented to departments and branches who have exhibited outstanding service in their jobs as individual and group performance in order to motivate customer service champions at all levels and high performing branches.

Risk Management and Compliance

Prudent risk management has become an integral part of the Bank's day-to-day business for compliance to applicable national and international rules and regulations. Financial and Non-financial risks were managed through conducting periodic (quarterly and monthly) reviews on various risk types and loan review and devising various new risk management tools.

As well as ensuring that the Bank is complied with both for external directives and proclamation and internal policy and procedure via providing weekly Currency Transaction Report (CTR)/Suspicious Transaction Report (STR), conducting customer profile rating and Due diligence on International Banking service and credit; and enhance efficiency of Anti-Money Laundering/Counter Terrorism Financing (AML/CTF) system, and Conduct Bank-wide AML/CTF risk assessments.

Corporate Governance

The Bank remains committed to observing and adhering to the highest standards of corporate governance and business ethics as set out by the National Bank of Ethiopia and other pertinent government organs. The various Board Committees (Audit, Risk, Human Resources, Information Technology, and Strategy and Budget) instituted by the Board of Directors oversee application of Corporate Governance principles in all the Bank's business undertakings.

Corporate Social Responsibility

Zemen Bank has donated a total of Birr 17.2 million for different causes during the just ended fiscal year. The major ones include: Birr 1.5 million to Addis Ababa City Administration Social Trust Fund in order to support student uniform, educational material and school feeding program; Birr 15.3 million to the Office of the Prime Minister for 'Gebeta Lehager' and other fund raising initiatives including for the support of "80th Birth Day" memorial event of the national icon Artist Tilahun Gessese.

Way Forward

Despite the continued business risk caused by the impact of COVID-19, economic volatility, peace and stability issues, fierce competition amongst banks and new industry entrants as well as non-bank financial actors that could potentially disrupt the market and change the financial sector landscape, Zemen is committed to focus long-term and sustainable business strategies for growth and brand maintenance to remain a key player in the industry and to ensure high shareholder value. To this end, the following major tasks are envisaged in the years to come:

New Strategy Implementation

The fiscal year 2020/21 was the expected period to finalize the new 5-year Corporate Strategy and 10-year Road Map. Though delayed primarily due to COVID-19, Zemen is now in the final stages towards new strategy formulation and implementation in the fiscal year 2021/22. The Board of Directors are confident that the Bank will put in place a Grand Vision that ensure the transformation of its Business Model that enables it to further register positive growth in all aspects by overcoming both internal and external challenges and capturing the numerous opportunities that the dynamic financial landscape offers.

Accelerate Digitization

Technological innovations have been and will continue to be a strong means of customer acquisition, retaining existing customers, reducing costs, building customers' loyalty, and increasing shareholder values. Innovation will continue to serve as a marketing tool to provide brand reinforcement, promote business and build the Bank's brand. Hence, Zemen will continue to strategically invest in new IT projects and complete those that are well in progress through software and digital platform developments while working on potential partnership opportunities with financial technology (fintech) companies to continue offering competitive service delivery channels.

New Business Development

To drive growth and profitability, the Bank will continue to strategically engage in the identification and development of new business opportunities and new ways of reaching new markets based on technological developments, customer, market, and regulatory trends. Moreover, given the relatively stronger strategic reorientation of Zemen Bank's business with respect to retail banking clients, the Bank's business that more explicitly targets: Small & Medium Enterprises (SMEs), middle-income households, and the younger segment of the population will continue to remain a strategic focus area of the Bank in the years to come.

Branch Expansion

Considering the trend in the direction of the country's move towards digital finance and global usage of Fintech solutions, moderate branch expansion will continue, and the existing branch network is expected to reach 83 by the end of June 2022; thereby opening 20 additional new branches throughout the country.

Headquarter Building

The Bank's headquarters building construction, which was expected to be finalized within the concluded fiscal year, has now reached 75.4 percent completion stage. Though it is behind schedule, most of the finishing works are currently in full swing and the building is expected to be fully completed and is expected to become operational in the middle of the fiscal year 2021/22.

Human Capital Development

Additional employees will be recruited to fill the existing gap of different work units. Accordingly, a total of about 298 new staff are expected to be hired across all work units, raising the staff count from the current 1,151 as at June 2021 to 1,449 by June 2022; exhibiting an expected 26% growth. This is anticipated with a view to enhance the service delivery of the Bank and help improve operational efficiency.

Recognizing the fundamental role of better-trained and skilled workforce, the Bank will continue to put training and skill development as an essential part of its Human Capital strategy to create customer-oriented, motivated, and knowledgeable staff. Most importantly, via the new strategy deployment, the Bank aims to deploy scorecard methods to set KPIs across the organization for each individual staff so to build a performance-based culture as a key characteristic of the Bank.

Paid-up Capital

The paid-up capital of the Bank stood at Birr 2.75 billion at the end of June 2021. In accordance with the NBE's new minimum capital requirement, the targeted Birr 5 Billion capital is projected to be reached at the end of December 2023 which is well ahead of the timeline set by the regulator.

Explore Viable Investment Opportunities

The ongoing regulatory directions and reforms will eventually bring the emergence of new business opportunities in the country's financial landscape. In this regard, the Bank will continue to actively engage and invest on feasible business activities that are expected to increasingly become possible within the regulatory scope.

Finally, the Board of Directors of the Bank takes this opportunity to extend its appreciation to the shareholders of the Bank, customers, National Bank of Ethiopia, management, employees, the existing Board of Directors and other stakeholders for their valuable contribution to the success of the Bank during the just ended fiscal year.

CUSTOMER SNAPSHOTS

SherEthiopia Ethiopia's biggest flower exporter	CARVICO ETHIOPIA Plc
TURKISH AIRLINES Turkish Airlines	Juniper Glass Industries S.C.
Unilever Unilever	Hilina Enriched Foods PLC
BGI Ethiopia	ICS ADDIS ABABA International Community School Int rnational Community School
NOAH Real Estate PLC. NOAH Real Estate PLC.	Coca-Cola The world's biggest brand

CUSTOMER SNAPSHOTS

CASTEL WINERY	CORBETTI Geothermal
ENYI General Business Plc.	IATA International Air Transport Association
Ambasáid na hÉireann Embassy of Ireland	OiLibya
IFC International Finance Corporation WORLD BANK GROUP *Creating Markets, Creating Opportunities*	Emirates A world-class airline
DASHEN Beer Dashen Beer	HEINEKEN Ethiopia

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 specifide 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.

MODERN BANKING SERVICES

Zemen Bank is all about giving customers choices and conveniences. Accordingly, we provide our customers with the option of banking at Zemen Banking Centers, 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 Banking Center, always fully staffed to minimize the transaction times at our counters. Indeed, all our Banking Center transactions are electronic and we strive to complete your visit in just 5 minutes.

"For top performance off-the-field... my choice is Zemen Bank."

- Athlete / Entrepreneur Haile Gebreselassie

DEPOSITS | LOANS | FOREX | CORPORATE BANKING | ATMS | INTERNET BANKING

ዘመን ባንክ Zemen BANK

+251 11 553 90 40

...LOCAL KNOWLEDGE...

w w w . z e m e n b a n k . c o m

ATMs

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

Online Banking

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

38% AVERAGE ANNUAL EARNINGS PER SHARE OVER PAST 5 YEARS

14 B
LOANS TO CUSTOMERS

$ 418.4 M
IN FOREX INFLOWS

25.15 B
TOTAL ASSET

43.9%
LOAN INCREASE FROM PREVIOUS YEAR

33.7%
GROSS PROFIT GROWTH

36%
ASSET GROWTH

2.74
PAID UP-CAPITAL

31.7%
DEPOSIT GROWTH

18.9 B
TOTAL DEPOSIT

SHAREHOLDERS' MEETING (26 December, 2020)

Call Center 6500

Customers can check balances or make account enquiries over the phone. Customers are also able to access current interest rates, forex rates and transfer funds.

Mobile Banking

Zemen's Mobile Banking Service enables customers to check balances, Transfer to other Bank, Finger print login, QR-CODE Payment Transfer, Activate and deactivate ATM Card, by Z-Wallet customers create an account for non-Zemen customer for fund Management and Payment to DSTV & Ethio Telecom.

DIRECTORS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE

FOR THE PERIOD ENDED 30 JUNE 2021

Directors *(As of June 30, 2021)*

Ermias Eshetu	Board Chairman	*(Appointed June 2021)*
Eneye Bemir	Board Deputy Chairman	*(Appointed June 2021)*
Mieraf Shewaye	Non-Executive Director	*(Appointed Feb 2018)*
Abebe Dinku (Pro.)	Non-Executive Director	*(Appointed Feb 2018)*
Wondwossen Mulugeta (Dr.)	Non-Executive Director	*(Appointed June 2021)*
Ashenafi Embeza	Non-Executive Director	*(Appointed June 2021)*
Bizuneh Bekele	Non-Executive Director	*(Appointed June 2021)*
Sinafikish Tekle	Non-Executive Director	*(Appointed June 2021)*
Tilaye Kassahun (Dr.)	Non-Executive Director	*(Appointed June 2021)*

Executive management *(As of June 30, 2021)*

Dereje Zebene	President/CEO	*(Appointed Apr 2018)*
Meseret Wondim	V/P - Corporate Resources Management	*(Appointed Aug 2016)*
Amha Tadesse	V/P - Technology	*(Appointed Nov 2017)*
Addis Woldecherkos	V/P - Operations	*(Appointed March 2020)*
Asrat Tadesse	V/P - Customer Service	*(Appointed March 2020)*
Dereje Mihretu	A/V/P - Credit	*(Appointed Jan 2020)*
Bayush Berhanu	Director - Multichannel Banking Department	*(Appointed Mar 2018)*
Fikru Tabor	Director - Risk & Compliance Management Department	*(Appointed Mar 2021)*
Aklilu Sisay	Director - Personal & Business Banking Department	*(Appointed May 2019)*
Michael Tsegaye	Director - Corporate & Institutional Banking Department	*(Appointed Feb 2020)*
Lemma Alemayehu	Director - Finanace Department	*(Appointed May 2019)*
HaileYesus Mezgebu	Director - IT Projects Department	*(Appointed Apr 2016)*
Tesfaye Salilew	Director - E- Channel Management Department	*(Appointed Aug 2016)*
Phylipos Mitiku	Director -Core Banking & Software Dev't Dep't	*(Appointed Aug 2016)*
Biniyam Abreham	Director - International Banking Dep't	*(Appointed Aug 2016)*
Tewahido Taffese	Director - Knowledge & Innovation Department	*(Appointed Mar 2017)*
Taye Nigatu	Director - Facility management Dep't	*(Appointed Aug 2016)*
Elias Kinfegebriel	Director - Human Resource Department	*(Appointed Dec 2013)*
Birhanu Beyene	Legal Counsellor	*(Appointed Feb 2019)*
Yohannes Getachew	Director - Internal Audit Department	*(Appointed Aug 2016)*
Kassahun Merawi	Director - Engineering Department	*(Appointed Apr 2017)*

Independent auditor

Getachew kassaye and Simon Audit Partnership
Chartered Certified Accountants
P.O.Box 1432 Addis Ababa, Ethiopia

Corporate office

Joseph Tito Street
P.O.Box 1212 Kirkos Addis Ababa, Ethiopia

AUDITORS' REPORT

REPORT OF THE DIRECTORS

FOR THE PERIOD ENDED 30 JUNE 2021

The directors submit their report together with the financial statements for the period ended 30 June 2021, to the members of Zemen Bank S.C. ("ZB or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation

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 2013 E.C.

Principal activities

The Bank’s principal activity is commercial banking.

Results and dividends

The Bank's results for the year ended 30 June 2021 are set out on page 8. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Interest income	1,786,734	1,462,028
Profit / (loss) before tax	1,296,957	998,339
Tax (charge) / credit	(344,275)	(259,215)
Profit / (loss) for the year	952,681	739,124
Other comprehensive income / (loss) net of taxes	633	7,549
Total comprehensive income / (loss) for the year	953,315	746,673

Directors

The directors who held office during the year and to the date of this report are set out on page 30.

Ermias Eshetu
Chairman of Board of Directors

ZEMEN BANK S.C.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE PERIOD ENDED 30 JUNE 2021

In accordance with the Financial Reporting Proclamation No. 847/2014 the Accounting and Auditing Board of of Ethiopia (AABE) may direct the Bank to prepare financial statements in accordance with International Financial Reporting Standards, whether their designation changes or they are replaced, from time to time.

The Directors are responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standard and in the manner required by the Accounting and Auditing Board of of Ethiopia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank is required keep such records are necessary to:

a) exhibit clearly and correctly the state of its affairs;

b) explain its transactions and financial position; and

c) enable the National Bank to determine whether the Bank had complied with the provisions of the Banking Business Proclamation and regulations and directives issued for the implementation of the aforementioned Proclamation.

The Directors accepts 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, Banking Business Proclamation, Commercial code of 2013 E.c and the relevant Directives issued by the National Bank of Ethiopia.

The Directors are the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Ermias Eshetu Chairman of Board of Directors	Dereje Zebene President/CEO

ZEMEN BANK S.C.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZEMEN BANK SHARE COMPANY

Opinion

We have audited the accompanying financial statements of Zemen Bank Share Company (hereinafter referred to as the Bank), which comprise the statement of financial position as at 30 June 2021, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 30 June 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Commercial Code of Ethiopia of 2013 E.C.

We have no comments to make on the report of the Board of Directors relating to the financial matters and pursuant to Article 349 (1) and (2) of the Commercial Code of Ethiopia of 2013 E.C, and recommend the above mentioned financial statements be approved.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Federal Democratic Republic of Ethiopia, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information, which comprises the report of the Board of Directors' as required by the Commercial Code of Ethiopia 2013 E.C and A Proclamation to Provide for Banking Business No. 592/2008 of the Federal Democratic Republic of Ethiopia, and directives of the National Bank of Ethiopia.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, and then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Management of the Bank are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Commercial Code of Ethiopian of 2013 E.C, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

Getachew Kassaye & Simon Audit Partnership Addis Ababa

GETACHEW KASSAYE &SIMON AUDIT PARTNERSHIP CHARTERED CERTIFIED ACCOUNTANTS

Addis Ababa
November16, 2021

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 PERIOD ENDED 30 JUNE 2021
In Ethiopian Birr

	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
Interest income	5	1,786,734	1,462,028
Interest expense	6	743,481	593,382
Net interest income		1,043,253	868,646
Fee and commission income	7	784,797	539,460
Fee and commission expense	7	-	-
Net fees and commission income		784,797	539,460
Other operating income	8	295,341	143,891
Total operating income		2,123,391	1,551,997
Loan impairment charge	9	56,420	5,003
Impairment losses on other assets	10	201	619
Net operating income		2,066,770	1,546,375
Personnel expenses	11	386,377	298,303
Amortisation of intangible assets	19	18,434	17,013
Depreciation and impairment of property, plant and equipment	20	36,402	32,503
Other operating expenses	12	328,601	200,217
Profit before tax		1,296,957	998,339
Income tax expense	13	344,275	259,215
Profit after tax		**952,681**	**739,124**
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
obligations		(3,911)	771
Deferred tax (liability)/asset on remeasurement gain or loss	13	1,173	(231)
		4,816	10,014
Fair value adjustment on equity investment			
Deferred tax (liability)/asset on remeasurement gain or loss		(1,445)	(3,004)
		633	7,549
Total comprehensive income for the period		**953,315**	**746,673**
Basic and diluted earnings per share	26	**469**	**462**

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The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.
STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 JUNE 2021

In Ethiopian Birr

	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
ASSETS			
Cash and cash equivalents	14	6,019,326	4,366,619
Loans and advances to customers	15	14,027,442	9,747,395
Asset Held for sale		-	1,520
Investment securities:			
- Equity Investement	16	61,443	31,627
- Bills and Bonds	16	2,788,470	2,788,620
Right of Use Asset	17	274,555	196,459
Other assets	18	863,540	425,230
Intangible assets	19	110,268	84,168
Property, plant and equipment	20	1,005,333	854,038
Deferred tax assets	13	-	-
Total assets		**25,150,377**	**18,495,676**
LIABILITIES			
Deposits due to other banks	20		
Deposits from customers	21	18,994,108	14,417,335
Current tax liabilities	13	345,607	260,586
Other liabilities	22	1,201,131	609,897
Finance lease liability	23	93,811	59,875
Deferred tax liabilities	13	14,475	15,578
Retirement benefit obligations	24	17,390	10,261.00
Total liabilities		**20,666,521**	**15,373,532**
EQUITY			
Share capital	25	2,749,315	1,806,368
Share premium		794	425
Special Resereve		14,500	-
Retained earnings	27	657,169	537,025
Legal reserve	28	875,295	639,892
Regulatory risk reserve	29	174,838	127,123
Other reserve		11,945	11,312
Total equity		**4,483,856**	**3,122,144**
Total equity and liabilities		**25,150,377**	**18,495,676**

The notes on pages 40 to 116 are an integral part of these financial statements.

The financial statements on pages 30 to 116 were approved and authorised for issue by the Board Directors on November 16 ,2021 and were signed on its behalf by:

Ermias Eshetu
Chairman of Board of Directors

Dereje Zebene
President/CEO

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.
STATEMENT OF CHANGE IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2021

In Ethiopian Birr

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Regulatory risk reserve Birr'000	Other reserve Birr'000	Legal reserve Birr'000	Total Birr'000
As at 1 July 2019		**1,412,098**	**425**	**350,088**	**111,140**	**3,762**	**455,111**	**2,332,624**
Profit for the period	26			739,124				739,124
Other comprehensive income:								-
Re-measurement gains on defined benefit plans (net of tax)	13					540		540
Fair value adjustement						7,010		7,010
Dividends paid				(350,088)				(350,088)
Proceeds from issue of shares		394,269						394,269
reserve	27			(184,781)		-	184,781	-
Transfer to regulatory risk reserve	28			(15,983)	15,983			-
Transfer to Revaluation Surplus				-				-
profits				(1,335)				(1,335)
Total comprehensive income for the period		394,269	-	186,937	15,983	7,549	184,781	789,520
As at 30 June 2020		**1,806,368**	**425**	**537,025**	**127,123**	**11,312**	**639,892**	**3,122,144**
As at 1 July 2020		**1,806,368**	**425**	**537,025**	**127,123**	**11,312**	**639,892**	**3,122,144**
Profit for the period	26			952,681				952,681
Other comprehensive								-
Re-measurement gains on defined benefit plans (net of tax)	13					(2,738)		(2,738)
Fair value adjustement						3,371		3,371
Dividends paid				(537,025)				(537,025)
Tax paid				(11,068)				(11,068)
Proceeds from issue of shares		942,948	369					943,317
reserve	27			(235,403)		-	235,403	-
Transfer to regulatory risk reserve	28			(47,715)	47,715			-
Transfer to Revaluation Surplus				-				-
Special Resereve		14,500						14,500
profits				(1,326)				(1,326)
Total comprehensive income for the period		957,447	369	120,144	47,715	633	235,403	1,361,712
As at 30 June 2021		**2,763,815**	**794**	**657,169**	**174,838**	**11,945**	**875,295**	**4,483,856**

The accompanying notes are an integral part of the financial statements

	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
Cash flows from operating activities			
Cash generated from operations	31	1,753,319	1,697,820
Defined benefits paid		-	-
Income tax paid		(260,629)	(152,003)
Net cash (outflow)/inflow from operating activities		**1,492,690**	**1,545,817**
Cash flows from investing activities			
Purchase of investment securities	16	150	417,888
Purchase of intangible assets	18	(44,534)	(26,552)
Purchase of property, plant and equipment	19	(186,364)	(163,206)
Acquired properties(net)		1,520	3,618
Purchase of additional Equity Investments		(25,000)	-
Proceeds from sale of property, plant and	29	1,469	2,135
Net cash (outflow)/inflow from investing activities		(252,758)	233,883
Cash flows from financing activities			
Proceeds from issues of shares		942,948	394,269
Dividend paid		(528,751)	(333,017)
Directors share on profit paid		(1,335)	(1,201)
Net cash (outflow)/inflow from financing activities		412,861	60,051
Net increase/(decrease) in cash and cash equivalents		**1,652,793**	**1,839,751**
Cash and cash equivalents at the beginning of	14	4,366,819	2,527,068
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the	14	**6,019,612**	**4,366,819**

The accompanying notes are an integral part of the financial statements

1. General information

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.

Joseph Tito Street
P.O.Box 1212
Kirkos Sub City
Addis Ababa, Ethiopia

The Bank is principally engaged in the provision of diverse range of financial products and services to a wholesale, retail and SME clients base in Ethiopian Market.

2. Summary of significant accounting policies

2.1. Introduction to summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2. Basis of preparation

The financial statements for the period ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements for the period ended 30 June 2021 are prepared in accordance with IFRS.

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept, except for the following :-

- Defined benefit pension plans – plan assets measured at fair value
- Equity investment measured at fair value

All values are rounded to the nearest thousand, except when otherwise indicated. The financial statements are presented in thousands of Ethiopian Birr (Birr' 000).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that

The accompanying notes are an integral part of the financial statements

the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.2.1 Going concern

The financial statements have been prepared on a going concern basis. The management have no doubt that the Bank would remain in existence after 12 months.

2.2.2 Changes in accounting policies and disclosures

2.2.2.1. New Standards, amendments, interpretations issued but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IAS 1 - Presentation of Financial Statements (Amendment)

The amendments is effective for annual periods beginning on or after January 1, 2023. Earlier

IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non- current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)

The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

IAS 12 - Income Taxes (Amendment)

The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future

tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.

IAS 16 - Property, Plant and Equipment (Amendment)

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (Amendment)

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).

2.3 Foreign currency translation

a) ***Functional and presentation currency***

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The functional currency and presentation currency of the Bank is the Ethiopian Birr.

b) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank's functional currency are recognized in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

2.4 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Bank, earns income from interest on loans given domestic trade and services, building and construction, manufacturing, agriculture, hotel and truism, transportation, import, export and consumer loans. Other incomes includes service charge on letter of credits and commission on performance guarantees.

2.4.1 Interest and similar income and expense

For all the government bills measured at amortized cost and interest bearing financial assets classified as available– for–sale interest income or expense is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR), but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.2 Fees and commission

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 income are recognized as the related services are performed.

When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expenses relates mainly to transaction and service fees are expensed as the services are received.

2.4.3 Dividend income

This is recognized when the Bank's right to receive the payment is established, which is generally when the shareholders approve and declare the dividend.

2.4.4 Foreign exchange revaluation gains or losses

These are gains and losses arising on settlement and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency's spot rate of exchange at the reporting date. This amount is recognized in the income statement and it is further broken down into realized and unrealized portion.

The monetary assets and liabilities include financial assets within the foreign currencies deposits received and held on behalf of third parties etc.

2.5 Financial assets and financial liabilities

a. Recognition and initial measurement

The Bank shall initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) shall be recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

b. Classification and subsequent measurement

i) Financial assets

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

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

— The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). `

A debt instrument shall be measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

— The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

— The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition, an equity investment that is held for trading shall be classified at FVTPL. However, for equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis. All other financial assets that do not meet the classification criteria at amortized cost or FVOCI, above, shall be classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see1.8).

— ***Business model assessment***

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

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

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

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

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

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

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

— ***Assessment of whether contractual cash flows are solely payments of principal and interest***

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

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

— Contingent events that would change the amount and timing of cash flows;

— leverage features;

— Prepayment and extension terms;

— Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and

— Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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ii) Financial liabilities

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

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

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

c. Impairment

At each reporting date, the Bank shall assess whether there is objective evidence that financial assets (except equity investments), other than those carried at FVTPL, are impaired.

The Bank shall recognize loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

— Financial assets that are debt instruments;

— lease receivables;

— Financial guarantee contracts issued; and

— loan commitments issued.

No impairment loss shall be recognized on equity investments.

The Bank shall measure loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

— Debt investment securities that are determined to have low credit risk at the reporting date; and

— Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables shall always be measured at an amount equal to lifetime ECL.
12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12- month ECL is recognized are referred to as 'Stage 1 financial instruments'.

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

i) Measurement of ECL

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

— For financial assets that are not credit-impaired at the reporting date (stage 1 and 2):as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);

— For financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;

— For undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

— For financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Restructured financial assets

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

— If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset

— If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

iii) Credit-impaired financial assets

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

A financial asset shall be considered 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

— Significant financial difficulty of the borrower or issuer;

— A breach of contract such as a default or past due event;

— The restructuring of a loan or advance by the Bank on terms that the Bank would not consider

— It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

— The disappearance of an active market for a security because of financial difficulties.

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

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

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

— For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

— For loan commitments and financial guarantee contracts: generally, as a provision;

— Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

— For debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognized in the fair value reserve.

v) Write-off

Loans and debt securities shall be written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment shall be carried out at the individual asset level.

Recoveries of amounts previously written off shall be included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply
with the Bank's procedures for recovery of amounts due.

vi) Non-integral financial guarantee contracts

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

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

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

d. Derecognition

i) Financial assets

The Bank shall derecognize a financial asset when:

— The contractual right to the cash flows from the financial asset expires (see also (1.4)), or

— It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or

— Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI shall not be recognized in profit or loss on derecognition of such securities.
Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank shall be recognized as a separate asset or liability.

ii) Financial liabilities

The Bank shall derecognize a financial liability when its contractual obligations are discharged or cancelled, or expire.

e. Modifications of financial assets and financial liabilities

i) Financial assets

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognized (see (1.3)) and a new financial asset shall be recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:

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

— Other fees are included in profit or loss as part of the gain or loss on derecognition. If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

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

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

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

ii) Financial liabilities

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

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

f. Offsetting

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

Income and expenses shall be presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

g. Designation at fair value through profit or loss

i) Financial assets

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

ii) Financial liabilities

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

— The liabilities are managed, evaluated and reported internally on a fair value basis; or

— The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.6. Net interest income

a. *Effective interest rate and amortized cost*

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability

b. *Amortized cost and gross carrying amount*

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018).

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

c. *Calculation of interest income and expense*

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

d. *Presentation*

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

2.7 IFRS 16 - Leases

This standard was issued in January 2016 (Effective 1 January 2019) . It sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. it also substantially carries forward the lessor accounting requirements in IAS 17.

The Bank has initially adopted IFRS 16 from 1 July 2019.

On adoption of IFRS 16, the Bank recognized lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognized in 'other liabilities' and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 July 2019. The associated right of use ('ROU') assets were recognized in 'other assets' and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognized on the balance sheet at 30 June 2020. Initial direct costs, i.e. Stamp duty charge, included in the measurement of ROU assets for leases previously accounted for as operating leases. In addition, the following practical expedients permitted by the standard were applied

- reliance was placed on previous assessments on whether leases were onerous; and
- operating leases with a remaining lease term of less than 12 months at 1 July 2019 were treated as short-term leases.

The differences between IAS 17 and IFRS 16 are summarized as follows:

IAS 17

Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

IFRS 16

Leases are recognized as an ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis.

In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. The management assumes the leassee's increamntal borrowing rate is the minimum saving deposit interest rate.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank incremental borrowing rate.

i.e. The minimum saving interest rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments and amounts expected to be payable certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in- substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

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The bank also elected Modified Retrospective Approach - the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application, July 1, 2019, Comparative figures for the year ended June 30, 2019, are not restated to reflect the adoption of IFRS 16 but instead continue to reflect the lessee's accounting policies under IAS 17 Leases

Extension options for leases

When the bank has the option to extend a lease, management uses its judgment to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. The extension of lease payments have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

2.8 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.9 Net trading income

Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

2.10 Property, plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Bank recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will Depreciation is calculated using the straight-line method to allocate their cost to their residual
values over their estimated useful lives, as follows:

Asset class	Estimated Useful Life in years	Residual Value
Buildings	50	5%
Motor vehicles	10	5%
Computer hardware	7	1%
Computer software	6	0%
Other office equipment		
Short lived	5	1%
Medium lived	10	1%
Lift and roofing	15	1%
Furniture and fittings		
Medium lived	10	1%
Long lived	20	1%

The Bank commences depreciation when the asset is available for use.

Capital work-in-progress is not depreciated as these assets are not yet available for use. They are disclosed when reclassified during the year.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.11 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in income statement in the period in which the expenditure is incurred .

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

- **Computer software – 6 years**
- **Capitalized expenditure – 6 years**
- **SWIFT software – 6 years**

2.12 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, are classified as investment properties.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Bank and the cost can be reliably measured. This is usually when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at cost and disclose fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional values who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Investment properties are derecognized when they have been disposed. Where the Bank disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of changes in net assets available for benefit.

2.13 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non- current asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

2.14 Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long- term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized

impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

2.15 Other assets

Other assets are generally defined as claims held against other entities for the future receipt of money. The other assets in the Bank's financial statements include the following:

(a) Prepayment

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

(b) Other receivables

Other receivables are recognized upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Bank's other receivables are rent receivables and other receivables from debtors.

2.16 Fair value measurement

The Bank measures financial instruments classified as available-for-sale at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non- financial assets that are measured at fair value or where fair values are disclosed are, summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.9.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.9.2
- Financial instruments (including those carried at amortized cost) Note 4.9.2

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Bank's management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets. For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above

2.17 Employee benefits

The Bank operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post employment benefits.

(a) Defined contribution plan

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organization employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;
ii) provident fund contribution, funding under this scheme is 7% and 15% by employees and the Bank respectively;

Both schemes are based on the employees' salary. Employer's contributions to this scheme are

(b) Defined benefit plan

The liability or asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated

in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past-service costs are recognized immediately in income.
Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(c) Termination benefits

Termination benefits are payable to employees when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.18 Provisions

Provisions are recognized when the present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as other operating expenses.

2.19 Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.21 Income taxation

(a) Current income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Ethiopia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

3 Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Bank's exposure to risks and uncertainties includes:

- Capital management Note 4.8
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.6.1

3.1 Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

Operating lease commitments - Bank as lessee

The Bank recognized rent expenses as operating lease if

- The lease has low value or
- The lease term is 12 month or less (Short term)

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

The Bank reviews its loan portfolios to assess impairment an on going basis. Where impairment has been identified, an allowance for impairment is recorded. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case loan allowance is measured at an amount equal to lifetime ECL.

If the financial asset meets the definition of purchased or originated credit impaired (POCL), the allowance is based on the change in the ECLs over the life of the asset. The Bank generally considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. Loss allowances on such low credit risk instrument are recognized at the equivalent of 12-month ECL.

The measurement of the expected credit loss allowance for financial assets measured at amortized coast and FVTOCL is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses) A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as the expected life of the instrument, determination of significant increase in credit risk, selection of appropriate macro-economic variables and other forward–looking information etc.

Determining criteria for significant increase in credit risk and choosing appropriate models and assumptions for the measurement of ECL. The assessment of SICR and the calculation of ECL both in incorporate forward-looking information. In assessing SICR, the Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has been applied in this process

The use of historical loss experience is supplemented with significant Director judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and interest rates. The assumptions underlying this judgment are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

Defined benefit plans

The cost of the defined benefit pension plan, long service awards, gratuity scheme and post- employment medical benefits and the present value of these defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgment. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less

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costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

4 Financial risk management

4.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

4.1.1 Risk management structure

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

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The President has established the Assets and liabilities (ALCO) and a Credit

Committee which are responsible for developing and monitoring the bank's risk management policies in their specified areas.

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

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

4.1.2 Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected regions. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

4.1.3 Risk mitigation

Risk controls and mitigates, identified and approved for the Bank, are documented for existing and new processes and systems.

The adequacy of these mitigates is tested on a periodic basis through administration of control self- assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently audited as part of the review process.

4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: Amortized Cost, Fair

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value through profit and loss and Fair value through other comprehensive income and the financial liabilities are classified into other liabilities at amortized cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

The Bank's classification of its financial assets is summarized in the table below:

30 June 2021	Notes	Fair value through Profit and Loss Birr'000	Fair value through Other Comprehensive Income Birr'000	Amortised Cost Birr'000	Total Birr'000
Cash and cash equivalents	14			6,019,326	6,019,326
Loans and advances to custon	15			14,027,442	14,027,442
Asset Held for sale		-		-	-
Investment securities:					-
- Equity Investement	16		61,443	-	61,443
- Bills and Bonds	16			2,788,470	2,788,470
Other assets	18			54,358	54,358
Total financial assets		-	61,443	22,889,596	22,951,039

30 June 2020	Notes	Fair value through Profit and Loss Birr'000	Fair value through Other Comprehensive Income Birr'000	Amortised Cost Birr'000	Total Birr'000
Cash and cash equivalents	14			4,366,619	4,366,619
Loans and advances to custon	15			9,747,395	9,747,395
Asset Held for sale		1,520		-	1,520
Investment securities:					-
- Equity Investement	16		31,627	-	31,627
- Bills and Bonds	16			2,788,620	2,788,620
Other assets	18			40,179	40,179
Total financial assets		1,520	31,627	16,942,812	16,975,959

4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and other financial assets.

4.3.1 Management of credit risk

Credit risk is the risk of financial loss of the bank if the customers or counter party to a financial instrument fails to meet its contractual obligations, and arises principally the banks loans and advances to customers and other financial assets.
Exposure to credit risk is managed through periodic analysis of the ability of borrowers and potential borrowers to determine their capacity to meet principal and interest thereon, and restructuring such limits as appropriate. Exposure to credit risk is also mitigated, in part, by obtaining collateral, commercial and personal guarantees.
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to term of the financial instrument and economic sectors.

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

Credit management is conducted as per the risk management policy and guideline approved by the board of directors and the Risk Management Committees. Such policies are reviewed and modified periodically based on changes and expectations of the markets where the Bank operates, regulations, and other factors.

In measuring credit risk of Financial assets at amortized cost to various counter parties, the bank conceders the character and capacity of the obligor to meet contractual obligation, current exposures to the counter party/obligor and its likely future development, credit history of the counter party/obligor; and likely recover ratio in case of default obligations – value of collateral and other solutions.

4.3.2 Credit related commitments risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. 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.

4.3.3 Maximum exposure to credit risk before collateral held or credit enhancements

a) Types of credit exposure

The Bank's maximum exposure to credit risk at 30 June 2020 and 30 June 2021 respectively, is represented by the net carrying amounts in the statement of financial position.

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	30 June 2021 Birr'000	30 June 2020 Birr'000
Cash and cash equivalents	6,019,326	4,366,619
Loans and advances to	14,027,442	9,747,395
Investment securities:		
- Equity Investement	61,443	31,627
- Bills and Bonds	2,788,470	2,788,620
Other assets	863,540	425,230
	23,760,221	17,359,490
Credit risk exposures relating to off balance sheets are as follows:		
Loan commitments	1,998,097	1,642,685
Letter of credit and other credit related obligations	1,839,877	1,008,625
	3,837,973	2,651,310
Total maximum exposure	27,598,194	20,010,800

(b) Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collaterals held as security against loans and receivables at the year end are shown below.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Motor vehicle	-	1,520
Building	-	-
	-	1,520

(c) Loans and advances to customer at amortized cost ,

(i) Gross loans and receivables to customers per sector is analyzed as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Agriculture	196,522	129,666
Industry	3,217,011	2,395,369
Building and construction	1,174,283	869,380
Domestic Trade and Service	2,791,463	1,948,706
Export	2,349,766	1,168,700
Import	1,102,619	844,862
Transportation	132,475	188,136
Hotel and Tourism	2,023,316	1,402,894
Personal Loans - Customers	779,448	599,628
Personal Loans - Staffs	490,185	373,280
Financial Institutions	-	-
		9,920,621

(ii) Gross loans and advances to customers per IFRS 9 impairment standard is analyzed as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Performing	13,557,332	9,423,869
Under Performing	378,797	299,850
Non Performing	320,957	196,902
	14,257,087	9,920,621

The above table represents a worse case scenario of credit risk exposure of the Bank as at the reporting dates without taking account of any collateral held or other credit enhancements attached.

Management is confident in its ability to continue to control and effectively manage the credit risk exposure in the Bank's loan and advances portfolio.

4.3.4 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

The loss allowance for loans and advances to customers also includes the loss allowances for loan commitments and financial guarantee contracts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.5. (c), (1) i)

(i) Loans and advances to customers at amortized cost

30 June 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Stage 1 – Pass	10,751,825	-	-	10,751,825
Stage 2 – Special mention	-	342,958	-	342,958
Stage 3 - Non performing	-	-	263,213	263,213
Total gross exposure	10,751,825	342,958	263,213	11,357,995
Loss allowance	(31,159)	(2,947)	(96,546)	(130,652)
Net carrying amount	10,720,666	340,011	166,666	11,227,343

30 June 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Stage 1 – Pass	8,735,720	-	-	8,735,720
Stage 2 – Special mention	-	271,073	-	271,073
Stage 3 - Non performing	-	-	318,112	318,112
Total gross exposure	**8,735,720**	**271,073**	**318,112**	**9,324,905**
Loss allowance	(10,990)	(1,354)	(160,132)	(172,475)
Net carrying amount	**8,724,730**	**269,720**	**157,980**	**9,152,430**

(ii) Off Balance Sheet Items

30 June 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Stage 1 – Pass	2,799,199	-	-	2,799,199
Stage 2 – Special mention	-	2,034	-	2,034
Stage 3 - Non performing	-	-	57,728	57,728
Total gross exposure	**2,799,199**	**2,034**	**57,728**	**2,858,961**
Loss allowance	(52,516)	(14)	(46,463)	(98,993)
Net carrying amount	**2,746,683**	**2,020**	**11,265**	**2,759,968**

30 June 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Stage 1 – Pass	924,553	-	-	924,553
Stage 2 – Special mention	-	-	-	-
Stage 3 - Non performing	-	-	-	-
Total gross exposure	**924,553**	**-**	**-**	**924,553**
Loss allowance	(755)	-	-	(755)
Net carrying amount	923,799	0	0	923,799

(ii) Other financial assets (debt instruments)

30 June 2021		Gross exposure	Loss allowance	Net carrying
Cash and balances with banks	12 Month ECL	4,775,348	(286)	4,775,062
Investment securities (debt instruments)	12 Month ECL	2,788,609	(139)	2,788,470
Other receivables and financial assets	Lifetime ECL	42,234	(1,762)	40,472
Emergency staff loans	Lifetime ECL	54,358	(3)	54,355
Totals		7,660,548	(2,190)	7,658,358

30 June 2020		Gross exposure	Loss allowance	carrying amount
Cash and balances with	12 Month ECL	3,983,286	(339)	3,982,947
Investment securities (debt instruments)	12 Month ECL	2,788,742	(139)	2,788,603
Other receivables and financial assets	Lifetime ECL	35,575	(1,649)	33,927
Emergency staff loans	Lifetime ECL	40,183	(2)	40,181
Totals		6,847,787	(2,129)	6,845,658

i) Loans and advances to corporate customers

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

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

ii) Investment securities designated as at FVTPL

At 30 June 2021, the Bank had no exposure to credit risk of the investment securities designated as at FVTPL

4.3.5 Amounts arising from ECL

i) Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 2.5.(c)

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ii) Significant increase in credit risk

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

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

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

iii) Credit risk grades

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

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

a. Term loan exposures

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
- Internally collected data on customer behavior – e.g. utilization of credit card facilities
- Affordability metrics

b. Overdraft exposures

- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilization of the granted limit
- Requests for and granting of forbearance

— Existing and forecast changes in business, financial and economic conditions

iv) Generating the term structure of PD

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

v) Determining whether credit risk has increased significantly

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

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

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

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

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

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

vi) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the

Bank to actions such as realizing security (if any is held);

- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

vii) Incorporation of forward-looking information

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

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

External information considered includes economic data and forecasts published by Business Monitor International, an external and independent macroeconomic data body. This is in addition to industry – level, semi – annual NPL trends across statistically comparable sectors.
Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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

Sector/Product	**Macroeconomic factors**				
Agriculture, Personal loans and Staff loans	INFLATION: Consumer price index, 2010 = 100, ave	EXCHANGE RATE: ETB/USD, ave	GDP EXPENDITURE: Exports of goods and services, USD per capital	DEBT: Government domestic debt, ETBbn	STRATIFICATION: Household Spending, ETBbn
Domestic Trade & Services	GDP: GDP per capita, USD	GDP EXPENDITURE: Imports of goods and services, USDbn	INFLATION: Consumer price index, 2010 = 100, eop	EXCHANGE RATE: ETB/USD, ave	FISCAL: Total revenue, USDbn
Building & Construction and Manufacturing & Production	GDP EXPENDITURE: Exports of goods and services, USD per capital	FISCAL: Current expenditure, USDbn	DEBT: Government domestic debt, ETBbn	-	-
Export and Import	GDP EXPENDITURE: Exports of goods and services,	GDP EXPENDITURE: Imports of goods and services, ETBbn	EXCHANGE RATE: Real effective exchange rate, index	GDP EXPENDITURE: Private final consumption, USDbn	DEBT: Total government debt, USDbn

The economic scenarios used as at 30 June 2020 included the following key indicators for Ethiopia for tl 2020 to 2022:

Macro-economic factor	**2020**	**2021**	**2022**
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
GDP: GDP per capita, USD	783	889	1004
GDP EXPENDITURE: Exports of goods and services, USD	64.4	72.1	80.3
GDP EXPENDITURE: Exports of goods and services, ETBbn	246.7	291.7	342.9
EXCHANGE RATE: ETB/USD	33.31	34.31	35.34
GDP EXPENDITURE: Imports of goods and services, USDbn	25.4	31.4	35.9
FISCAL: Current expenditure, USDbn	8.1	9.6	10.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	845.7	1077.9	1270.6
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
DEBT: Government domestic debt, ETBbn	752	872.3	1003.1
EXCHANGE RATE: Real effective exchange rate, index	126.32	124.12	122.16
GDP EXPENDITURE: Private final consumption, USDbn	68	81.9	95
STRATIFICATION: Household Spending, ETBbn	2095.7	2503.8	2991.5
FISCAL: Total revenue, USDbn	9.6	10.3	11.6
DEBT: Total government debt, USDbn	55.2	67.1	77

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Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing semi – annual historical data over the past 5 years. The Bank uses the same as 2020 maicro economics forecast for 2021.

Scenario probability weightings viii) Modified financial assets

As at June 2021

	Upside	**Median/ Central**	**Downside**
Cluster 1	0%	50%	50%
Cluster 2	0%	50%	50%
Cluster 3	0%	50%	50%
Cluster 4	0%	50%	50%

As at June 2020

	Upside	**Median/ Central**	**Downside**
Cluster 1	0%	50%	50%
Cluster 2	0%	50%	50%
Cluster 3	0%	50%	50%
Cluster 4	0%	50%	50%

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

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

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

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

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

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

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

ix) Measurement of ECL

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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

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

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

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

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

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

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

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

4.3.6 Statement of Prudential adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the expected credit loss model required by IFRS under IFRS 9. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

The proclamation 'Financial Reporting Proclamation No.847/2014 stipulates that Banks would be During the period ended 30 June 2021, their is transferred amount to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IFRS 9 as at year end.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Total impairment based on IFRS	229,645	173,226
Total impairment based on NBE Directives	325,710	243,192
Transfer to Regulatory risk reserve	96,064	69,966

As per the requirements of IFRS , banks should recognize interest income on the written down amount of the loan after the impairment loss, on an accrual basis, using the EIR. However, As per the requirement of National Bank of Ethiopia, banks should derecognized interest income on impaired exposures, special attention should be paid to impaired exposures with a higher number of days past due (e.g. more than 90 days past due).

To comply with the directive of the NBE, the Bank has reversed the suspended interest on impaired loans from retained earning account and transferred to Regulatory Risk reserve account as the amount is non-distributable to the shareholders.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Write backed Suspended interest net of tax	78,774	57,157

4.3.7 Credit concentrations

The Bank monitors concentrations of credit risk by social sector. An analysis of concentrations of credit risk at 30 June 2021 and 30 June 2020. The Bank concentrates all its financial assets in Ethiopia.

30 June 2021	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				6,019,326
Loans and receivables	3,217,011	1,174,283	2,791,463	7,074,330
Investment securities:				
- Equity Investement				61,443
- Bills and Bonds				2,788,470
Other assets				863,540
Loan Commitement				1,998,097
	3,217,011	1,174,283	2,791,463	18,805,207

30 June 2020	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				4,366,619
Loans and receivables	2,395,369	869,380	1,948,706	4,707,165
Investment securities:				
- Equity Investement				31,627
- Bills and Bonds				2,788,620
Other assets				425,230
Loan Commitement				1,642,685
	2,395,369	869,380	1,948,706	13,961,946

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4.3.8 Collateral held and their financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. Staff loans are secured to the extent of the employee's continued employment in the Bank.

The Bank may take collateral in the form of a first charge over real estate, liens and guarantees. The Bank does not sell or replete the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

The fair value of the collaterals are based on the last revaluations carried out by the Bank's in-house engineers. The valuation technique adopted for properties is in line with the Bank's valuation manual and the revalued amount is similar to fair values of properties with similar size and location.

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Nature of securities in respect of loans and receivables

30 June 2021	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	17,653	175,300	12,611	14,314	-
Building and Construction	4,213,348	-	23,236	84,992	-
Consumer	1,735,483	1,000	-	149,148	9,916
DTS	6,571,315	214,331	-	214,290	8,590
Export	6,190,765	93,793	54	53,730	115,369
Hotel and tourism	12,017,914	1,988	-	36,726	14
Import	3,690,455	29,000	-	43,982	10,998
Industry	6,811,508	610,259	224,615	71,901	740,718
Personal Staff Loan	546,757	-	-	109,815	80
Transport and Communicatioı	345,980	-	-	147,457	120
Grand Total	**42,141,177**	**1,125,670**	**260,516**	**926,355**	**885,804**

The accompanying notes are an integral part of the financial statements

30 June 2020	Secured against real estate Birr'000	Cash Birr'000	Machinery Birr'000	Vehicles Birr'000	Others Birr'000
Agriculture	10,010	66,145	5,520	16,526	13,835
Building and Construction	796,575	28,484	2,830	100,000	33,839
Consumer	455,276	1,296	-	7,228	75,299
DTS	1,664,633	41,501	-	1,168	109,658
Export	438,310	36,816	54,093	134,355	144,707
Hotel and tourism	1,403,625	762	-	600	13,993
Import	764,484	135,200	-	41,408	22,629
Industry	1,298,835	720,705	145,786	705,721	14,465
Personal Staff Loan	288,429	-	-	66	46,743
Transport and Communicatio	19,357	-	-	-	119,650
Grand Total	**7,139,535**	**1,030,909**	**208,229**	**1,007,071**	**594,818**

4.4. Financial assets and financial liabilities

4.4.1 Classification of financial assets and financial liabilities

The following table shows the original measurement categories and amounts in accordance with IFRS 9 for the Bank's financial assets and financial liabilities as at 30 June 2021.

		30 June 2021		
	Classification under IFRS 9 Birr'000	Original carrying amount under IFRS 9 Birr'000	Loss Allowance Birr'000	New carrying amount under IFRS 9 Birr'000
Financial assets				
Cash and balances with banks	Amortised cost	5,083,325	(286)	5,083,039
Loans and advances to customers	Amortised cost	14,257,087	(229,645)	14,027,442
Investment securities: Available for sale	FVOCI	61,443	-	61,443
Investment securities: Loans and receivables	Amortised cost	2,788,748	(139)	2,788,609
Other financial assets at amortised cost	Amortised cost	823,264	20,951	844,214
Total financial assets		**23,013,867**	**(209,120)**	**22,804,747**
Financial liabilities				
Deposits from customers	Amortised cost	18,994,108	-	18,994,108
Other financial liabilities (including ECL on loan commitments and	Amortised cost	1,839,877	(20)	1,839,857
Total financial liabilities		**20,833,985**	**(20)**	**20,833,965**

4.5 Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

Liquidity risk management in the Bank is solely determined by Asset and Liability Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

4.5.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

The Bank has incurred indebtedness in the form of borrowings. The Bank evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Bank devises strategies to manage its liquidity risk.

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

4.5.2 Maturity analysis of financial liabilities

The table below analyses the Bank's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The cash flows presented are the undiscounted amounts to be settled in future.

30 June 2021	Up to 1 month Birr'000	Up to 3 months Birr'000	up to 12 months Birr'000	Over 1 year Birr'000
Customer deposits	5,287,734	4,928,646	3,710,865	4,001,114
Due to financial institutions	-			
Margins held	1,065,749			
Other liabilities	527,499	119,735	244,049	435,523
Profit tax payable			345,607	
Total financial liabilities	6,880,983	5,048,381	4,300,521	4,436,637

30 June 2020	Up to 1 month Birr'000	Up to 3 months Birr'000	up to 12 months Birr'000	Over 1 year Birr'000
Customer deposits	4,135,987	3,698,630	3,595,546	2,319,901
Due to financial institutions	-			
Margins held	665,357			
Other liabilities	247,967	107,642	127,143	7,018
Profit tax payable			260,586	
Total financial liabilities	5,049,311	3,806,272	3,983,275	2,326,919

4.6 Market risk

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

The President is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day to day implementation of those policies.

4.6.1 Management of market risk

The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk is monitored by the risk management department on regularly, to identify any adverse movement in the underlying variables.

(i) 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 table below sets out information on the exposures to fixed and variable interest instruments.

30 June 2021	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks		-	6,019,326	6,019,326
Loans and receivables		14,027,442	-	14,027,442
Investment securities	61,443	-		61,443
Total	61,443	14,027,442	6,019,326	20,108,211
Liabilities				
Deposits due to other banks		-		-
Deposits from customers		11,802,330	7,191,778	18,994,108
Debt securities issued		-	-	-
Other liabilities			1,672,413	1,672,413
Total	-	11,802,330	8,864,191	20,666,521

30 June 2020	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks		308,181	4,058,438	4,366,619
Loans and receivables		9,747,395	-	9,747,395
Investment securities	31,627	-		31,627
Total	31,627	10,055,575	4,058,438	14,145,640
Liabilities				
Deposits due to other banks		-		-
Deposits from customers		8,904,014	5,513,321	14,417,335
Debt securities issued		-	-	-
Other liabilities			609,897	609,897
Total	-	8,904,014	6,123,218	15,027,232

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non–trading financial assets and financial liabilities held at 30 June 2019 and 30 June 2018. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
30 June 2021	10%	104,325	104,325
30 June 2020	10%	86,865	86,865

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

Foreign currency denominated balances

	30 June 2021 Birr'000	30 June 2020 Birr'000
Financial assets		
Cash and bank balances	3,898,313	1,992,490
Customer deposits	1,655,793	1,384,494
Margins held	311,995	157,142
	1,967,787	1,541,635
Net foreign currency exposure	1,930,525	450,855

Sensitivity analysis for foreign exchange risk

The sensitivity analysis for currency rate risk shows how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates at the reporting date.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Impact on profit or loss		
10% change in exchange rates	193,053	45,086

4.7 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the banks processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the bank's operations and are faced by all business entities.

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions

b) Requirements for the reconciliation and monitoring of transactions,

c) Compliance with regulatory and other legal requirements,

d) Documentation of controls and procedures,

e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,

f) Requirements for the reporting of operational losses and proposed remedial action, g) Development of contingency plans,

h) Training and professional development, i) Ethical and business standards,

j) Risk mitigation, including insurance where this is effective.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of

4.8 Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

4.8.1 Capital management

The Bank's objectives when managing capital are to comply with the capital requirements set by the National Bank of Ethiopia, safeguard its ability to continue as a going concern, and to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

4.8.2 Capital adequacy ratio

According to the Licensing & Supervision of Banking Business Directive No SBB/50/2011 of the National Bank of Ethiopia, the Bank has to maintain capital to risk weighted assets ratio of 8% at all times, the risk weighted assets being calculated as per the provisions of Directive No SBB/9/95 issued on August 18, 1995. The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base.

Capital includes capital contribution, retained earnings, legal reserve and other reserves to be approved by the National Bank of Ethiopia.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Capital		
Capital contribution	2,750,109	1,806,793
Retained earnings	657,169	537,025
Legal reserves	875,295	639,892
	4,282,573	2,983,709

Risk weighted assets		
Risk weighted balance for on-balance sheet items	11,109,407	6,905,755
Credit equivalents for off-balance Sheet Items	1,151,994	1,099,839
	12,261,400	8,005,595
Total regulatory capital	16,543,973	10,989,304
Risk-weighted Capital Adequacy Ratio (CAR)		
TIER 1 CARMinimum required capital	**35%**	**37%**
Excess	**8%**	**8%**
	27%	29%

4.9 Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

4.9.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) .This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data.

In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

4.9.2 Financial instruments not measured at fair value - Fair value hierarchy

The following table summarizes the carrying amounts of financial assets and liabilities at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

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30 June 2021	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	6,019,326			6,019,326	6,019,326
Loans and receivables	14,027,442			14,027,442	14,027,442
Investment securities	61,443		61,443	-	61,443
Total	20,108,211	-	61,443.00	20,046,768	20,108,211
Financial liabilities					
Deposits due to other banks	-			-	-
Deposits from customers	18,994,108			18,994,108	18,994,108
Other liabilities	1,201,131			1,201,131	1,201,131
Total	20,195,240	-	-	20,195,240	20,195,240

30 June 2020	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	4,366,619			4,366,619	4,366,619
Loans and receivables	9,747,395			9,747,395	9,747,395
Investment securities	31,627		31,627	-	31,627
Total	14,145,640	-	31,627.00	14,114,013	14,145,640
Financial liabilities					
Deposits due to other banks	-			-	-
Deposits from customers	14,417,335			14,417,335	14,417,335
Other liabilities	609,897			609,897	609,897
Total	15,027,232	-	-	15,027,232	15,027,232

4.9.3 Valuation technique using significant unobservable inputs – Level 3

The Bank has no financial asset measured at fair value on subsequent recognition.

4.9.4 Transfers between the fair value hierarchy categories

During the three reporting periods covered by these annual financial statements, there were no movements between levels as a result of significant inputs to the fair valuation process becoming observable or unobservable.

4.9.5 Offsetting financial assets and financial liabilities

There are no offsetting arrangements. Financial assets and liabilities are settled and disclosed on a gross

		30 June 2021 Birr'000	30 June 2020 Birr'000
5	**Interest income**		
	Interest on term loans	1,360,679	1,100,257
	Interest on merchandise loans	12,179	12,510
	Interest on overdrafts and others	268,823	214,444
	Interest on bills	75	739
	Interest on investment securities	117,792	121,157
	Interest on deposit with local banks	27,186	9,424
	Interest on deposits with foreign banks	-	3,497
		1,786,734	1,462,028

		30 June 2021 Birr'000	30 June 2020 Birr'000
6	**Interest expense**		
	Interest on demand deposit	200	100
	Interest on savings deposit	591,000	454,904
	Interest on time deposit	149,948	134,931
	Interest on short term borrowing	2,333	3,447
		743,481	593,382

		30 June 2021 Birr'000	30 June 2020 Birr'000
7	**Net fees and commission income**		
	Fee and commission income		
	Commissions on letter of credit	642,636	432,483
	Commissions on letter of guarantee	12,802	3,428
	Commission on VISA transactions	1,738	-
	Commission on MasterCard transactions	924	-
	Service charge	84,725	67,994
	Loan processing fee	12,356	10,696
	Overdraft protection fee	359	416
	Balance maintenance fee	8,621	6,223
	Other fees and commission income	20,636	18,220
		784,797	539,460
	Fee and commission expense		
		-	-
	Net fees and commission income	784,797	539,460

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		30 June 2021 Birr'000	30 June 2020 Birr'000
8	**Other operating income**		
	Postage and processing fees	16,128	12,255
	Gain on foreign exchange	269,341	126,173
	Sundry income	9,872	5,463
		295,341	143,891

		30 June 2021 Birr'000	30 June 2020 Birr'000
9	**Loan impairment charge**		
	Loans and receivables - charge for the year (note 15a)	56,420	5,003
	Loans and receivables - reversal of provision (note 15a)		
		56,420	5,003

		30 June 2021 Birr'000	30 June 2020 Birr'000
10	**Impairment losses on other assets**		
	Other assets - charge for the year (note 17)	201	619
	Other assets - reversal of impairment losses (note 17)		
		201	619

		30 June 2021 Birr'000	30 June 2020 Birr'000
11	**Personnel expenses**		
	Salaries and wages	220,150	166,050
	Staff allowances	19,828	16,248
	Pension costs – Defined contribution plan	32,368	24,327
	Bonus	57,873	43,021
	Transport	26,075	21,287
	Defined benefit expense	3,218	2,680
	Other staff expenses	26,865	24,690
		386,377	298,303

		30 June 2021 Birr'000	30 June 2020 Birr'000
12	**Other operating expenses**		
	Advertisement	18,708	8,641
	Board expenses	3,811	2,657
	Audit fee	397	345
	Other expenses	76,492	28,704
	Bank charges	200	357
	Cleaning supplies	1,414	1,355
	Consultancy	23,253	5,952
	Donations	16,891	5,247
	Correspondent charges	10,070	4,420
	Entertainment	1,323	1,213
	Fuel	3,907	3,297
	Insurance	1,910	1,906
	License fees	36,042	21,957
	Maintenance	3,158	2,263
	Rent	3,173	534
	Stationery	6,039	5,570
	Telephone	836	889
	Internet	6,750	5,861
	Visa	10,562	9,007
	Mastercard	12,375	10,392
	EthSwitch Charge	1,304	225
	Depreciation - ROU	85,283	73,222
	Finance lease charge	4,703	6,203
	Impairment Expense	-	-
		328,601	200,217

Following the adoption of IFRS 16, the right-of-use assets depereciation of birr 73 ml (2019: nil) and Finance lease charge of birr 6 ml (2019: nil) have been recognised from 1 January 2019. Comparatives have not been restated. During the peirod expense increased by birr 2.3ml as compared to lease previously classified as 'operating leases'.

		30 June 2021 Birr'000	30 June 2020 Birr'000
13	**Company income and deferred tax**		
13a	**Current income tax**		
	Company income tax	345,650	260,721
	Prior year (over)/ under provision		
	Prior Deffered Tax Adjustement		
	Tax on foreign deposit interest		
	Deferred income tax/(credit) to profit or loss	(1,375)	(1,505)
	Total charge to profit or loss	344,275	259,215
	Total tax in statement of comprehensive income	344,275	259,215

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13b Reconciliation of effective tax to statutory tax

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Profit before tax		
IFRS Accounting profit	**1,296,957**	**998,339**
Tax calculated at statutory tax rate of 30 %	**389,087**	**299,502**
Add : Disallowed expenses		
Entertainment	463	364
Donation	-	74
Non Deductable Representation Allowance	3	-
Bad debt Expense	60	186
Penalty	0.27	86
Obligation (Severance pay temporary difference)	-	-
Current service cost (Severance pay)	965	804
Loss on disposal of non-current assets	-	-
Impairement loss	-	-
Provision for loans and advances as per IFRs	16,926	1,501
Depreciation and Amortization for IFRS accounting purpose	16,451	14,855
ROU Deperciation and Finance Lease cost	26,996	23,827
Provision for annual leave	452	-
Below Market interest	1,121	-
	63,438	**41,697**
Less :		
Depreciation and Amortizationfor tax purpose	16,666	14,758
Provision for loans and advances for tax NBE 80%	19,804	2,168
Gain on disposal of fixed assets	405	453
Interest income taxed at source- foreign at different rate	-	1,049
Dividend income taxed at source	135	-
Interest income taxed at source-NBE Bills	32,330	35,682
Interest income taxed at source-Treasury Bills	2,961	619
Interest income taxed at source-Government Bond	46	47
Interest income taxed at source-Local Deposit (5%)	8,156	2,827
Interest income taxed at source- foreign at different rate (5%)	-	(52)
Office Rent Expence	26,371	22,928
	106,875	**80,478**
	345,650	**260,721**

13c	Current income tax liability	30 June 2021 Birr'000	30 June 2020 Birr'000
	Balance at the beginning of the year	260,586	151,868
	Charge for the year:	345,650	260,721
	Education tax		
	Capital gains tax		
	Income tax expense		
	Prior year (over)/ under provision		
	WHT Not utilised	(43)	(135)
	Payment during the year	(260,586)	(151,868)
	Balance at the end of the year	**345,607**	**260,586**

13d Deferred income tax -

Deferred income tax assets/liablity are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets/liablity of Birr 14,475 (15,578) for the Bank have not been recognised as at 30 June 2021 and 30 June 2020 respectively because it is not probable that future taxable profits will be available against which they can be utilised.

	30 June 2021 Birr'000	30 June 2020 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	14,475	15,578
To be recovered within 12 months		
	14,475	15,578

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in profit or loss ("P/L), in equity and other comprehensive income are attributable to the following items:

Deferred income tax assets/(liabilities):	30 June 2020 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2021 Birr'000
Property, plant and equipment	(13,123)	(216)		(13,339)
ROU Deperciation and Finance Lease cost	900	625		1,525
Provisions	-			-
Unrealised exchange gain	-			-
Gain/Loss on equity investment	(6,433)		(1,445)	(7,877)
Post employment benefit obligation	3,078	965	1,173	5,217
Total deferred tax assets/(liabilities)	(15,578)	1,375	(271)	(14,475)

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Deferred income tax assets/(liabilities):	30 June 2019 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2020 Birr'000
Property, plant and equipment	(12,925)	(198)		(13,123)
ROU Deperciation and Finance Lease cos	-	900		900
Provisions	-			-
Unrealised exchange gain	-			-
Gain/Loss on equity investment	(3,428)		(3,004)	(6,433)
Post employment benefit obligation	2,506	804	(231)	3,078
Total deferred tax assets/(liabilities)	(13,848)	1,505	(3,235)	(15,578)

14	Cash and cash equivalents	30 June 2021 Birr'000	30 June 2020 Birr'000
	Cash on hand	307,977	383,531
	Balances with domestic banks	3,742	311,246
	Balances with foreign banks	3,876,856	2,240,460
	Cash reserve with NBE	894,750	685,750
	Balances with National Bank of Ethiopia-payment and settlement account	-	745,831
	Loss Allowance	(286)	(199)
		5,083,039	4,366,619

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	4,188,575	3,681,068
Non-Current	894,750	685,750
	5,083,325	4,366,818

Cash and cash equivalents in the statement of cash flows are the same as on the statement of financial position as the Bank had no bank overdrafts at the end of each reporting period.

		30 June 2021 Birr'000	30 June 2020 Birr'000
15	**Loans and advances to customers**		
	Agriculture	196,522	129,666
	Industry	3,217,011	2,395,369
	Building and construction	1,174,283	869,380
	Domestic Trade and Service	2,791,463	1,948,706
	Export	2,349,766	1,168,700
	Import	1,102,619	844,862
	Transportation	132,475	188,136
	Hotel and Tourism	2,023,316	1,402,894
	Personal Loans - Customers	779,448	599,628
	Personal Loans - Staffs	490,185	373,280
	Gross amount	14,257,087	9,920,621
	Less: Impairment allowance (note 15a)	(229,645)	(173,226)
		14,027,442	9,747,395

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	5,016,529	3,288,500
Non-Current	9,240,558	6,632,120
	14,257,087	9,920,621

15a Impairment allowance on loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and receivables by class, is as follows:

Loss allowance for impairment	As at 30 June 2020 Birr'000	Charge for the year Birr'000	As at 30 June 2021 Birr'000
Agriculture loans	11,234	(1,835)	9,399
Building and construction loans	7,644	(4,244)	3,400
Consumer loans	2,882	(1,258)	1,624
DTS loans	15,157	(4,274)	10,883
Hotel loans	5,092	(119)	4,972
Export loans	59,532	98,186	157,718
Import loans	43,278	(10,036)	33,242
Industry loans	24,255	(18,325)	5,930
Transport loans	3,504	(1,441)	2,063
Staff loans loans	647	(233)	414
Total	**173,226**	**56,420**	**229,645**

Loss allowance for impairment	As at 30 June 2019 Birr'000	Charge for the year Birr'000	As at 30 June 2020 Birr'000
Agriculture loans	6,043	5,191	11,234
Building and construction loans	3,313	4,331	7,644
Consumer loans	1,395	1,487	2,882
DTS loans	3,503	11,654	15,157
Hotel loans	8,947	(3,855)	5,092
Export loans	75,447	(15,915)	59,532
Import loans	48,186	(4,908)	43,278
Industry loans	17,361	6,894	24,255
Transport loans	3,888	(384)	3,504
Staff loans loans	139	508	647
Total	**168,222**	**5,004**	**173,226**

		30 June 2021 Birr'000	30 June 2020 Birr'000
16	**Investment securities**		
	Available for sale:		
	Equity Investments	61,443	31,627
	Less individual allowance for impairment		
		61,443	31,627
	Loans and receivables:		
	NBE Bills	2,786,532	2,786,681
	Ethiopian Government bonds	2,077	2,078
	Gross amount	2,788,609	2,788,759
	Less individual allowance for impairment	(139)	(139)
		2,788,470	2,788,620

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	556,390	-
Non-Current	2,232,219	2,788,759
	2,788,609	2,788,759

The Banks hold equity investments in Eth-switch of 4.526% (30 June 2020: 5.13%) and measred at fair value and First Capital Leasing of 1% (30 June 2020: 1%)

		30 June 2021 Birr'000	30 June 2020 Birr'000
17	**Right of Use Asset**		
	Right of Use Asset	274,555	196,459
		274,555	196,459

The Bank assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank incremental borrowing rate. i.e. The minimum saving interest rate.

		30 June 2021 Birr'000	30 June 2020 Birr'000
18	**Other assets**		
	Financial assets		
	Uncleared effects-local	-48	309
	Uncleared effects-foreign	655	471
	Sundry Debtors	818,468	385,056
	Prepaid staff asset	45,866	45,708
	Claim on HO and Branches	224	277
	Gross amount	865,165	431,821
	Less: Specific impairment allowance (note 17a)	(20,951)	(21,046)
		844,214	410,775

The make up of sundry debtors is as shown hereunder:	30 June 2021 Birr'000	30 June 2020 Birr'000
Prepaid interest	78,312	69,139
Prepayments	564,193	177,378
Staff emergency loan	54,358	40,179
Suspended interst as per NBE directive	81,962	60,608
Others	39,643	37,752
	818,468	**385,056**
	-	
Non-financial assets		
Inventory	19,326	14,455
	19,326	14,455
Gross amount	**863,540**	**425,230**

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	59,382	12,585
Non-Current	825,109	433,691
	884,491	446,276

18a Impairment allowance on other assets

A reconciliation of the allowance for impairment losses for other assets is as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Balance at the beginning of the year	21,046	20,901
(Reversal)/charge for the year (note 10)	(95)	145
Balance at the end of the year	20,951	21,046

18b Inventory

A breakdown of the items included within inventory is as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Stationary stock account	6,482	6,335
Other stock	2,513	2,628
Debit Cards, CPOs, Drafts and CDTs	1,034	1,476
Uniform stock	3,365	3,930
Computers - stock	2,610	78
Office Equipment-Stock	3,322	8
Cheque book stock	-	-
	19,326	14,455

19 Intangible Assets

	Computer software Birr'000	Capitalized expenditure Birr'000	SWIFT software Birr'000	under progress Birr'000	Total Birr'000
Cost:					
As at 1 July 2019	127,145	8,379	578	518	136,621
Acquisitions	1,772	-	-	24,780	26,552
Internal development				-	-
Transfer from property, plant and equipment				-	-
As at 30 June 2020	**128,917**	**8,379**	**578**	**25,299**	**163,173**
As at 1 July 2020	128,917	8,379	578	25,299	163,173
Acquisitions	45,574	-	-	(1,041)	44,534
Internal development				-	-
					-
As at 30 June 2021	**174,492**	**8,379**	**578**	**24,258**	**207,707**
amortisation and impairment losses					
As at 1 July 2019	53,035	8,379	578	-	61,992
Amortisation for the year	17,013			-	17,013
Impairment losses				-	-
As at 30 June 2020	**70,048**	**8,379**	**578**	**-**	**79,005**
As at 1 July 2020	70,048	8,379	578	-	79,005
Amortisation for the year	18,434			-	18,434
Impairment losses				-	-
As at 30 June 2021	**88,481**	**8,379**	**578**	**-**	**97,438**
Net book value					
As at 30 June 2020	**58,870**	**-**	**-**	**25,299**	**84,168**
As at 30 June 2021	**86,011**	**-**	**-**	**24,258**	**110,268**

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.
NOTE OF THE FINANCIAL STATMENTS
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20 Property, plant and equipment

	Work in progress Birr'000	Motor vehicle Birr'000	Computers Birr'000	Office equipment Birr'000	Total Birr'000
Cost:					
As at 1 July 2019	556,005	87,993	95,673	90,937	830,609
Additions	112,699	-	36,251	17,069	166,019
Disposals	-	(815)	(485)	(292)	(1,591)
Reclassification	-	-	(1,241)	(77)	(1,318)
As at 30 June 2020	**668,704**	**87,178**	**130,199**	**107,637**	**993,719**
As at 1 July 2020	668,704	87,178	130,199	107,637	993,719
Additions	140,401	9,226	15,390	23,017	188,033
Disposals	-	(116)	(76)	(500)	(692)
Reclassification	-	-	(3,996)	3,816	(180)
As at 30 June 2021	**809,105**	**96,288**	**141,517**	**133,971**	**1,180,881**
Accumulated depreciation					
As at 1 July 2019	-	27,315	45,810	35,035	108,160
Charge for the year	-	8,157	13,606	9,245	31,008
Impairement		-	-	-	-
Reclassification		-	592	903	1,495
Disposals	-	(331)	(426)	(226)	(983)
As at 30 June 2020	**-**	**35,140**	**59,583**	**44,957**	**139,680**
As at 1 July 2020	-	35,140	59,583	44,957	139,680
Charge for the year	-	8,836	14,963	11,115	34,915
Impairement		-	-	-	-
Reclassification		-	360	1,130	1,490
Disposals	-	(115)	(48)	(376)	(540)
As at 30 June 2021	**-**	**43,861**	**74,858**	**56,825**	**175,545**
Net book value					
As at 30 June 2020	**668,704**	**52,038**	**70,616**	**62,681**	**854,039**
As at 30 June 2021	**809,105**	**52,427**	**66,659**	**77,145**	**1,005,336**

The accompanying notes are an integral part of the financial statements

	30 June 2021 Birr'000	30 June 2020 Birr'000
20 Deposits due to other banks		
Balances due to other banks	-	-
	-	-

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	-	-
Non-Current	-	-
	-	-

	30 June 2021 Birr'000	30 June 2020 Birr'000
21 Deposits from customers		
Demand deposits	6,126,029	4,847,964
Time deposits	1,399,080	1,087,843
Savings deposits	9,871,559	7,432,044
Retention deposits	531,691	384,127
Other deposits	1,065,749	665,357
	18,994,108	14,417,335

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	14,992,995	12,095,519
Non-Current	4,001,114	2,321,816
	18,994,108	14,417,335

	30 June 2021 Birr'000	30 June 2020 Birr'000
22 Other liabilities		
Financial liabilities		
Accrued leave	17,555	13,784
Cashier payment orders	70,876	38,479
Dividend payable	23,045	29,271
Exchange payable to National Bank of Ethiopia	24,580	16,698
Old drafts outstanding	18,601	17,743
Directors Share on Profit	1,326	1,335
Claim on HO and Branches	-	-
	155,983	117,310

Non-financial liabilities		
Taxes and stamp duty charges	31,071	20,077
Miscellaneous	887,764	393,949
Unearned income	68,806	36,654
Provision for Bonus	57,505	41,907
	1,045,146	492,587
Gross amount	**1,201,129**	**609,897**

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000
Current	891,283	482,752
Non-Current	309,846	127,145
	1,201,129	609,897

	30 June 2021 Birr'000	30 June 2020 Birr'000
23 Finance lease liability		
Finance lease liability	93,811	59,875
	93,811	59,875

	30 June 2021 Birr'000	30 June 2020 Birr'000
24 Retirement benefit obligations		
Defined benefits liabilities:		
– Pension prize (note 23a)	17390	10,261
Liability in the statement of financial position	**17,390**	**10,261**
Income statement charge included in personnel expenses:		
– Pension prize (note 23a)	3218	2,680
Total defined benefit expenses	**3,218**	**2,680**
Remeasurements for:		
– Pension prize (note 23a)	3911	(771)
	3,911	**(771)**

The income statement charge included within personnel expenses includes current service cost, interest cost, past service costs on the defined benefit scheme.

Maturity analysis	30 June 2021 Birr'000	30 June 2020 Birr'000	30 June 2019 Birr'000
Current			
Non-Current	3,911	(771)	1,860
	3,911	(771)	1,860

24a Pension prize

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

	30 June 2021 Birr'000	30 June 2020 Birr'000
A Liability recognised in the financial position	17,390	10,261

B Amount recognised in the profit or loss	30 June 2021 Birr'000	30 June 2020 Birr'000
Current service cost	1511	1,564
Interest cost	1707	1,116
	3,218	2,680
C Amount recognised in other comprehensive income:		
arising from changes in demographic assumptions		-
Remeasurement (gains)/losses arising from changes in the	(386)	(2,254)
Remeasurement (gains)/losses arising from experience	4,267	1,483
Tax credit /(charge)		
	3,881	(771)

The movement in the defined benefit obligation over the years is as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
At the beginning of the year	10,261	8,352
Current service cost	1511	1,564
Interest cost	1707	1,116
Remeasurement (gains)/ losses	3,911	(771)
Benefits paid		-
At the end of the year	17,390	10,261

The significant actuarial assumptions were as follows:

ZEMEN BANK S.C.
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i) Financial Assumption Long term Average

	30 June 2021 Birr'000	30 June 2020 Birr'000
Discount Rate (p.a)	14.90%	14.50%
Average Rate of Inflation	10%	10%
Slary Increase Rate	12%	12%

ii) Mortality in Service

Mortality rates are commonly set with reference to standard tables published by reputableinstitutions (such as the Actuarial Society of South Africa and the Central Statistics Agency (“CSA”)) who have access to statistically significant data from which to derive mortality rates.

Sample mortality rates are as follows:

Age	Males	Females
20	0.00306	0.00223
25	0.00303	0.00228
30	0.00355	0.00314
35	0.00405	0.00279
40	0.00515	0.00319
45	0.00450	0.00428
50	0.00628	0.00628
55	0.00979	0.00979
60	0.01536	0.01536

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 10% at the youngest ages falling with increasing age to 2.5% at age 45.

Age	Annual Rate of Resignation
20	15.0%
25	12.5%
30	10.0%
35	7.5%
40	5.0%
45	2.5%
50+	0.0%

The sensitivity of the overall defined benefit liability to changes in the weighted principal

		Impact on defined benefit obligation and Salary			
		30 June 2021		30 June 2020	
	in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	1.0%	16,456	18,388	9,639	10,928
Salary Increase	1.0%	18,405	16,425	10,937	9,620

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The duration of the liabilities, on which the assumptions have been set, was calculated to be 7 years on the current valuation assumptions and data.

	30 June 2021 Birr'000	30 June 2020 Birr'000
25 Ordinary share capital		
Authorised:		
Ordinary shares of Birr 1000 each	2,749,315	1,806,368
Issued and fully paid:		
Ordinary shares of Birr 1000 each	2,749,315	1,806,368

26 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Profit attributable to shareholders	952,681	739,124
Weighted average number of ordinary shares in issue	2,032	1,600
Basic & diluted earnings per share (Birr)	469	462

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2021:nil, 1 July 2020: nil), hence the basic and diluted loss per share have the same value.

	30 June 2021 Birr'000	30 June 2020 Birr'000
27 Retained earnings		
At the beginning of the year	537,025	350,088
Profit/ (Loss) for the year	952,681	739,124
Opening balance adjustment		
Divdends paid	(537,025)	(350,088)
Income tax paid	(11,068)	
Directors share on profits	(1,326)	(1,335)
Re-measurement gains on defined benefit plans (net of tax)		
Transfer to legal reserve	(235,403)	(184,781)
Transfer to regulatory risk reserve	(47,715)	(15,983)
At the end of the year	657,169	537,025

During the period, the tax authority eximined the book of records till June 30,2020 and claim birr 11,06

	30 June 2021 Birr'000	30 June 2020 Birr'000
28 Legal reserve		
At the beginning of the year	639,892	455,111
Transfer (from) / to retained earnings	235,403	184,781
At the end of the year	875,295	639,892

The NBE Directive No. SBB/4/95 requires the Bank to transfer annually 25% of its annual net profit to its legal reserve account until such account equals its capital. When the legal reserve account equals the capital of the Bank, the amount to be transferred to the legal reserve account will be 10% (ten percent) of the annual net profit.

	30 June 2021 Birr'000	30 June 2020 Birr'000
29 Regulatory risk reserve		
At the beginning of the year	127,123	111,140
Transfer (from) / to retained earnings	47,715	15,983
At the end of the year	174,838	127,123

30 June 2021	Suspended interest	Excess provision as per NBE	Total
Balance after provsisioning	150,046		150,046
Taxation @30%	(45,014)	96,064	51,050
	105,032	96,064	201,096
Balance transferred to legal reserve	(26,258)	-	(26,258)
	78,774	96,064	174,838
Balance brought forward			127,123
Current period addition			**47,715**

30 June 2020	Suspended interest	Excess provision as per NBE	Total
Balance after provsisioning	108,871	69,966	178,837
Taxation @30%	(32,661)	-	(32,661)
	76,209	69,966	146,175
Balance transferred to legal reserve	(19,052)	-	(19,052)
	57,157	69,966	127,123
Balance brought forward			111,140
Current period addition			**15,983**

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia(NBE) to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the foreward looking model.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the foreward looking model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using the foreward looking model under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

	30 June 2021 Birr'000	30 June 2020 Birr'000
30 Fair value reserve (equity investments)		
At the beginning of the year	31,627	21,613
Additions	25,000	-
Transfer (from) / to Revaluation surplus	4,816	10,014
At the end of the year	61,443	31,627

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	Notes	30 June 2021 Birr'000	30 June 2020 Birr'000
31 Cash generated from operating activities			
Profit before tax		1,296,957	998,339
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	20	36,402	32,503
Amortisation of intangible assets	19	18,434	17,013
Gain/(Loss) on disposal of property, plant and equipr	20	(1,227)	(1,527)
Impairment on loans and receivables	15	56,420	5,003
Impairment on other assets	18	201	619
Impairment on fixed assets		-	-
Retirement benefit obligations		3,218	2,680
Changes in working capital:			
-Decrease/ (Increase) in loans and advances to custor	15	(4,336,466)	(2,142,862)
-Decrease/ (Increase) in other assets	18	(450,698)	94,939
-Decrease/ (Increase) in ROU		(78,096)	(196,459)
-Increase/ (Decrease) in other liabilities	22	597,467	35,533
-Increase/ (Decrease) in Finance lease liabilities		33,936	59,875
Proceeds/ (Repayments) of deposits from banks	20	-	-
Proceeds/ (Repayments) of deposits from customers		4,576,773	2,792,165
		1,753,319	1,697,821

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

	30 June 2021 Birr'000	30 June 2020 Birr'000
Proceeds on disposal	1,351	2,135
plant and equipment disposed (Note 20)	(123)	(608)
Net Gain/(loss) on sale or disposal of non-current assets	1,227	1,527

32 Related party transactions
Zemen Bank is a privately owned commercial bank

A number of transactions were entered into with related parties in the normal course of business. These are disclosed below:
Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2021.

	30 June 2021 Birr'000	30 June 2020 Birr'000
Mgt Salaries and other short-term employee benefits	7,172	4,557
Post-employment benefits		-
Termination benefits		-
Sitting allowance	526	366
Board Rumeneration and salary	3,340	2,505
Other expenses		
	11,039	7,428

Compensation of the Bank's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefits plans.

33 Directors and employees

i) The average number of persons (excluding directors) employed by the Bank during the year was as follows:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Manegerial	137	123
Clerical	793	648
Non-clerical	212	218
Contractual	6	13
	1,148	1,002

ZEMEN BANK S.C.
NOTE OF THE FINANCIAL STATMENTS
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34 Contingent liabilities
34a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2021 is Birr 28.42 ml. Except birr 11.3ml no other provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

34 Guarantees and letters of credit

The Bank conducts business involving performance bonds and guarantees. These instruments are given as a security to support the performance of a customer to third parties. As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

The table below summarizes the fair value amount of contingent liabilities for the account of customers:

	30 June 2021 Birr'000	30 June 2020 Birr'000
Guarantees and Letters of credit	1,839,877	1,008,625
	1,839,877	1,008,625

35 Operating lease commitments - Bank as lessee

The Bank leases various properties under non-cancellable operating lease agreements. The lease terms are between one and two years, and majority of these lease agreements are renewable at the end of the each lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:
The Bank has commitments, not provided for in these financial statements, of Birr 3,475 (30 June 2020: Birr 1,276 million)

	30 June 2021 Birr'000	30 June 2020 Birr'000
No later than 1 year	72	1,025
Later than 1 year and no later than 2 years	522	251
Later than 2 years but not later than 5 years	2,881	-
Total	3,475	1,276

36 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2021 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

ዓመታዊ ሪፖርት - 2013

ዘመን ባንክ
የትርፍ ወይም ኪሳራ እና አጠቃላይ ገቢ መግለጫ
ሰኔ 23 ቀን 2013 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	2013 ብር'000	2012 ብር'000
ከወለድ የተገኘ ገቢ	5	1,786,734	1,462,028
የወለድ ወጪ	6	(743,481)	(593,382)
የተጣራ የወለድ ገቢ		1,043,253	868,646
ከአገልግሎትና ኮሚሽን ገቢ	7	784,797	539,460
ከአገልግሎትና ኮሚሽን ወጪ	7	-	-
የተጣራ ከአገልግሎትና ኮሚሽን ገቢ		784,797	539,460
ከልዩ ልዩ ገቢ	8	295,341	143,891
አጠቃላይ መደበኛ ገቢ		2,123,391	1,551,997
ለብድር የተያዘ መጠባበቂያ	9	(56,420)	(5,003)
ለሌሎች ሃብቶች የተያዘ መጠባበቂያ	10	(201)	(619)
የተጣራ መደበኛ ገቢ		2,066,770	1,546,375
ለሠራተኞች ደሞዝና ጥቅማጥቅሞች	11	385,591	298,303
ሀልዎት ለሌላቸው ሀብት የማሚያ ወጪ	19	18,434	17,013
የቋሚ ሀብት እርጅና ተቀናሽ	20	36,402	32,503
ለሌሎች መደበኛ ወጪዎች	12	328,601	200,217
ትርፍ - ከትርፍ ግብር በፊት		1,296,957	998,339
የትርፍ ግብር ወጪ	13	344,275	259,216
ትርፍ - ከትርፍ ግብር በኃላ		**952,681**	**739,124**
ሌሎች ገቢዎች ከትርፍ ግብር በኃላ			
በትርፍና ኪሳራ መዝገብ የማይካተቱ ገቢዎች			
በጡረታ ግዜ ለሰራተኞች ሊከፈል የሚችል ጥቅማጥቅም		(3,911)	771
ወደፊት ሊከፈል የሚችል የትርፍ ግብር	13	1,173	(231)
የሚዛናዊ ዋጋ ማስተካከያ *(Fair Value Adjustment)*		4,816	10,014
በተለያዩ አክሲዮን ማህበራት የተደረገ ኢንቨስትመንት ላይ :			
ወደፊት ሊከፈል የሚችል የትርፍ ግብር		(1,445)	(3,004)
		633	7,549
የአመቱ አጠቃላይ የተጣራ ገቢ		**953,315**	**746,673**
የባንኩ ትርፍ በአንድ ሺህ ብር የአክሲዮን ዋጋ ሲለካ	26	**469**	**462**

ዘመን ባንክ አ.ማ. Addis Ababa, Ethiopia ዘመን ባንክ Zemen BANK No 01 P.O.Box 28119 Code 1000 Zemen Bank S.C.

ኤርሚያስ እሸቱ
የዲሬክተሮች ቦርድ ሊቀመንበር

ደረጀ ዘበነ
ዋና ስራ አስፈፃሚ

ዘመን ባንክ
የሐብትና እዳ መግለጫ
ሰኔ 23 ቀን 2013 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	2013 ብር'000	2012 ብር'000
ሀብት			
ጥሬ ገንዘብና ጥሬ ገንዘብ አከል ሀብት	14	6,019,326	4,366,619
ለደንበኞች የተሰጡ ብድሮች	15	14,027,442	9,747,395
ለሽያጭ የተዘጋጁ የተወረሱ ንብረቶች		-	1,520
ኢንቨስትመንት:			
- በተለያዩ አክሲዮን ማህበራት የተደረገ	16	61,443	31,627
ኢንቨስትመንት:			
- የብሔራዊ ባንክ ሰነድ ግዢ	16	2,788,470	2,788,620
ንብረትን የመጠቀም መብት	17	274,555	196,459
ሌሎች ሃብቶች	18	863,540	425,230
ሀልዎት የሌላቸው ሀብት	19	110,268	84,168
ቋሚ ሀብት	20	1,005,333	854,038
ወደፊት የሚሰበሰብ የትርፍ ግብር	13	-	-
		25,150,377	18,495,676
አጠቃላይ ሀብት		**25,150,377**	**18,495,676**
የዕዳ ሚዛን			
የደንበኞች ተቀማጭ በፋይናንስ ተቋማት	20	-	-
የደንበኞች ተቀማጭ ገንዘብ	21	18,994,108	14,417,335
ተከፋይ የትርፍ ግብር	13	345,607	260,586
ሌሎች ዕዳዎች	22	1,201,131	609,897
የፋይናንስ ሊዝ ዕዳ	23	93,811	59,875
ወደፊት የሚከፈል የትርፍ ግብር	13	14,475	15,578
በጡረታ ግዜ ለሰራተኞች የሚከፈል ጥቅማጥቅም	24	17,390	10,261
አጠቃላይ የዕዳ ሚዛን		**20,666,521**	**15,373,532**
የካፒታልና መጠባበቂያ ሂሳቦች			
የተከፈለ ካፒታል	25	2,749,315	1,806,368
በአክሲዮን ሽያጭ ዋጋ ብልጫ የተከፈለ		794	425
ልዩ የመጠባበቂያ ሂሳብ		14,500	
ያልተከፈለ ትርፍ	27	657,169	537,025
ሕጋዊ የመጠባበቂያ ሂሳብ	28	875,295	639,892
በብሔራዊ ባንክ መመሪያ መሰረት ለብድር	29		
የተያዘ ተጨማሪ መጠባበቂያ		174,838	127,123
ሌሎች የመጠባበቂያ ሒሳቦች		11,945	11,312
አጠቃላይ ካፒታልና መጠባበቂያ ሂሳቦች ሚዛን		4,483,856	3,122,144
አጠቃላይ ዕዳዎች፤ ካፒታልና መጠባበቂያ ሂሳቦች ሚዛን		**25,150,377**	**18,495,676**

ዘመን ባንክ አ.ማ. Addis Ababa, Ethiopia ዘመን ባንክ Zemen BANK No 01 P.O.Box 28119 Code 1000 Zemen Bank S.C.

ኤርሚያስ እሸቱ
የዲሬክተሮች ቦርድ ሊቀመንበር

ደረጀ ዘበነ
ዋና ስራ አስፈፃሚ

ዘመን ባንክ

በባለአክሲዮኖች ሀብት ላይ የተከናወኑ ለውጦችን የሚያሳይ ዝርዝር

ሰኔ 23 ቀን 2013 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	የተከፈለ አክሲዮን	በአክሲዮን ሽያጭ ዋጋ ብልጫ የተሰበሰበ	ያልተከፈለ ትርፍ	በተቆጣጣሪ አካል የስጋት የመጠባበቂያ	ሌሎች መጠባበቂያዎች	ሕጋዊ መጠባበቂያ	ድምር
		ብር'000	ብር'000	ብር'000	ብር'000	ብር'000	ብር'000	ብር'000
ሰኔ 24 ቀን 2011 ዓ.ም. መነሻ		**1,412,098**	**425**	**350,088**	**111,140**	**3,762**	**455,111**	**2,332,624**
የዓመቱ የተጣራ ትርፍ	26			739,124				739,124
ሌሎች ገቢዎች:								-
እንደገና የመገመት ትርፍ (ኪሳራ)								
በጡረታ ግዜ ለሰራተኞች ሊከፈል								
የሚችል ጥቅማጥቅም (የተጣራ ከግብር	13					540		540
የሚዛናዊ ዋጋ ማስተካከያ(Fair Value Adjustment)						7,010		7,010
የተፈፀመ የትርፍ ክፍያ				(350,088)				(350,088)
ከአክስዮን ሽያጩ የተሰበሰበ		394,269						394,269
ወደ ሕጋዊ መጠባበቂያ የዞረ	27			(184,781)		-	184,781	-
በብሔራዊ ባንክ መመሪያ መሰረት	28			(15,983)	15,983			-
ለብድር የተያዘ ተጨማሪ መጠባበቂያ								
የዲሬክተሮች ቦርድ አባላት የትርፍ ድርሻ				(1,335)				(1,335)
የአመቱ አጠቃላይ ገቢ		394,269	-	186,937	15,983	7,549	184,781	789,520
ሰኔ 23 ቀን 2012 ዓ.ም. ላይ የነበረ		**1,806,368**	**425**	**537,025**	**127,123**	**11,312**	**639,892**	**3,122,144**
ሰኔ 24 ቀን 2012 ዓ.ም. መነሻ		**1,806,368**	**425**	**537,025**	**127,123**	**11,312**	**639,892**	**3,122,144**
የዓመቱ የተጣራ ትርፍ	26			952,681				952,681
ሌሎች ገቢዎች:								-
እንደገና የመገመት ትርፍ (ኪሳራ)								
በጡረታ ግዜ ለሰራተኞች ሊከፈል								
የሚችል ጥቅማጥቅም (የተጣራ ከግብር	13					(2,738)		(2,738)
የሚዛናዊ ዋጋ ማስተካከያ(Fair Value Adjustment)						3,371		3,371
የተፈፀመ የትርፍ ክፍያ				(537,025)				(537,025)
ግብር የተከፈለ				(11,068)				(11,068)
ከአክስዮን ሽያጩ የተሰበሰበ		942,948	369					943,317
ወደ ሕጋዊ መጠባበቂያ የዞረ	27			(235,403)		-	235,403	-
በብሔራዊ ባንክ መመሪያ መሰረት	28			(47,715)	47,715			-
ለብድር የተያዘ ተጨማሪ መጠባበቂያ የዞረ								
ልዩ የመጠባበቂያ ሂሳብ		14,500						14,500
የዲሬክተሮች ቦርድ አባላት የትርፍ ድርሻ				(1,326)				(1,326)
የአመቱ አጠቃላይ ገቢ		957,447	369	120,144	47,715	633	235,403	1,361,712
ሰኔ 23 ቀን 2013 ዓ.ም. ያለ ባላንስ		**2,763,815**	**794**	**657,169**	**174,838**	**11,945**	**875,295**	**4,483,856**

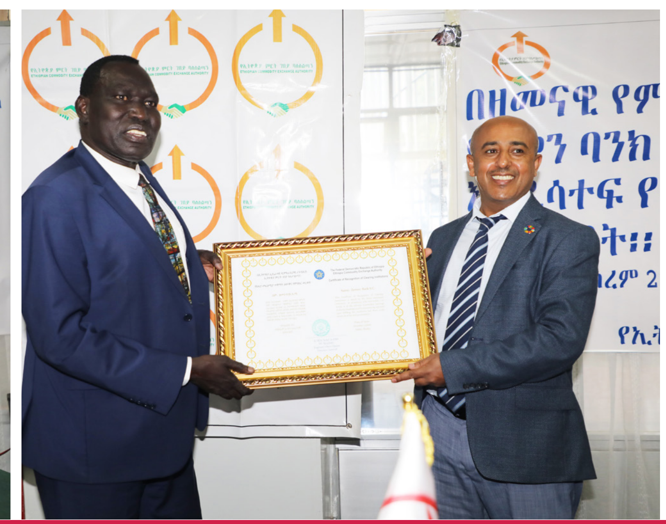
ዘመን ባንክ

የጥሬ ገንዘብ እንቅስቃሴ መግለጫ

ሰኔ 23 ቀን 2013 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	2013 ብር'000	2012 ብር'000
ከመደበኛ የስራ እንቅስቃሴ ጋር የተያያዘ የገንዘብ ፍሰት			
ከመደበኛ የስራ እንቅስቃሴ የተገኘ ገንዘብ	31	1,753,319	1,697,820
የታወቁ ጥቅማ ጥቅሞች ክፍያ			
የገቢ ግብር ክፍያ		(260,629)	(152,003)
ከመደበኛ የስራ እንቅስቃሴ የተገኘ (የወጣ) የተጣራ ገንዘብ		**1,492,690**	**1,545,817**
ከኢንቨስትመንት የተገኘ ገንዘብ			
የኢንቨስትመንት ሰነድ ግዢ	16	150	417,888
ሀልዎት ለሌላቸው ሀብት ግዢ	18	(44,534)	(26,552)
ለቋሚ ዕቃዎችና መሳሪያዎች ግዢ	19	(186,364)	(163,206)
የተወረሱ ንብረቶች		1,520	3,618
የተገዛ ተጨማሪ ኢንቨስትመንት		(25,000)	-
ከቋሚ ዕቃዎችና መሳሪያዎች ሽያጭ	29	1,469	2,135
ከኢንቨስትመንት የተገኘ (የወጣ) የተጣራ ገንዘብ		**(252,758)**	**233,883**
ከፋይናንስ እንቅስቃሴ የተገኘ			
ከአክሲዮን ሽያጭ		942,948	394,269
ለባላክሲዮኖች የተከፈለ የትርፍ ድርሻ		(528,751)	(333,017)
የዲሬክተሮች ቦርድ አባላት የትርፍ ድርሻ		(1,335)	(1,201)
ከፋይናንስ እንቅስቃሴ የተገኘ(የወጣ) የተጣራ ገንዘብ		**412,861**	**60,051**
በጥሬ ገንዘብና በገንዘብ አከል የታየ እድገት (ቅናሽ)		**1,652,793**	**1,839,751**
በአመቱ መጀመሪያ የነበረ የጥሬ ገንዘብና ገንዘብ አከል መጠን	14	4,366,819	2,527,068
የተጣራ የውጪ ምንዛሬ ገቢ(ወጪ) ከጥሬ ገንዘብና ገንዘብ አከል መጠን		-	-
በአመቱ መጨረሻ የነበረ የጥሬ ገንዘብና ገንዘብ አከል መጠን	14	**6,019,612**	**4,366,819**

EVENTS IN PICTURE



ዘመን ባንክ
Zemen
BANK

www.zemenbank.com
info@zemenbank.com

Zemen Bank S.C.
Call Center 6500
Tel. +251 11 553 9040
Fax. +251 11 553 9042
P.O. Box 1212, Kazanchis
Addis Ababa Ethiopia