



ANNUAL REPORT 2013



Financial Solutions from A to Z
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VISION

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



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Zemen Bank is:

Proudly Ethiopian, professional, dynamic, world-class and totally customer focused.

Our Values include:

Upholding the highest standards, being progressive and innovative.

Our Personality is:

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

To our Customers:

We offer a professional partnership, trust and outstanding levels of service.

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

BOARD OF DIRECTORS



Dr. Berhane Ghebray
Board Chairman



Tamiru WondimAgegnehu
Board Deputy Chairman



Abera Degefa
Board Director



Dr. Asmamaw Kelemu
Board Director



Emebet Dejene
Board Director

Kbreab Afework
Board Director



Neway Berhanu
Board Director



Ato Solomon Aferu
Board Director



W/ro Tarik Kassa
Board Director

SENIOR MANAGEMENT



Tsegay Tetemke
President / CEO



Ermias Eshetu
Vice President
Marketing &
Corporate Services



Helaway Tadesse
Senior Vice President



Sebhat Belayneh
Vice President
Finance &
International
Banking



Adamseged Belay
Legal Counsellor



Demelash Demissie
Manager Domestic
Banking Operations



Adugna Mekonnen
Manager New
Business Development,
Planning & Research



Firehiwot Birke
Manager
Main Branch



Meseret Wondim
Manager
Internal Audit



Nebyou Tekola
Manager HR &
Support Services



Shimelis Legesse
Core Banking
Application &
Administration



Solomon Ketema
Manager Credit



Solomon Mamo
Manager Finance



Tesfaye Boru
Manager Risk &
Portfolio Management



Tesfaye Salilew
Manager
Infrastructure
& Channel
Management

CHAIRMAN'S STATEMENT

Year ended 30 June 2013

I am honored to present to you the 2012/13 Annual Report on the occasion of the fifth anniversary of Zemen Bank. The record of growth and innovation shown by Zemen Bank over the past five years is a source of pride for all of us closely associated with the bank's distinctive vision and mission. As before, the Bank's work in the just completed fiscal year has been marked with wide-ranging efforts to bring a new dynamism to the financial sector in Ethiopia—by introducing innovative financial products into the marketplace, by focusing on

world-class customer service standards, and by implementing many of the latest technological advances in the global banking industry.

The bank's work in mobilizing deposits and foreign exchange was particularly successful, given growth rates of 40 and 46 percent respectively in these two critical resources.

Supporting all of the Bank's initiatives noted above has been a macroeconomic setting that was—in most respects—broadly conducive for banking sector activity during this past year. With a continuation of Ethiopia's strong record of economic growth—tentatively estimated at 11 percent for 2012/13—the need for capital remains as high as ever from businesses seeking to start or expand operations in agri-business, industry, exports, and services. The central bank's monetary policies have facilitated 30 percent growth in money supply during the year and thus allowed for strong deposit expansion at commercial banks, including at Zemen Bank.



PERSONAL BANKING



On the inflation front, the environment has become much more supportive of savings, with inflation falling to just 7 percent in June 2013 after two years of double-digit price increases. Given a small decline in Ethiopia's overall exports (to \$3.1 billion this past fiscal year from \$3.2 billion the year before), international trade activity was lower than anticipated at a national level, but overall foreign exchange inflows have still held up relatively well—both at Zemen Bank and economy wide—given strong inflows from other external sources such as remittances, transfers, and foreign investments.

With respect to Zemen Bank's financial performance during the just completed fiscal year, I am pleased to report a continuation of the positive gains registered since the Bank's founding. As before, the Bank recorded commendable growth rates in key operational measures such as deposits, loans, and foreign exchange inflows. The bank's work in mobilizing deposits and foreign exchange was particularly successful, given growth rates of 40 and 46 percent respectively in these two critical resources. At the same time, a challenging part of the Bank's work in 2012/13 has been the management of non-performing loans, but progress is being seen here and stronger controls have been put in place by both the Board and Management to ensure that loan quality is not compromised for the period ahead. In other areas, we have significantly increased the number of customers making use of our technologically-driven banking products, not just at our main branch but

also through our multiple service delivery points such as internet banking, ATMs, POS terminals, Foreign Exchange Bureaus, and Banking Kiosks. Reflecting all of the above, the bank's revenues and after-tax profits have climbed to record levels this past year, allowing us to once again maintain our commitment to delivering satisfactory dividend returns to our shareholders.

To conclude, as we mark the first five years of the Bank's establishment and move on towards the next five years of operations, it is worth recognizing the strong institutional base that has been laid to date as well as the large opportunities that present themselves given our early successes. For making all of the above accomplishments possible, I would particularly like to thank our valued customers and shareholders as well as our Management and staff for their solid commitment and dedication to Zemen Bank. And best wishes to all for the coming five years.



Dr. Berhane Ghebray
Chairman of the Board
Zemen Bank

Personal Banking

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

49% AVERAGE ANNUAL EARNINGS PER SHARE OVER PAST 4 YEARS

31M BIRR WITHDRAWN FROM ATMS EVERY MONTH

4000 INTERNET BANKING USERS EVERY MONTH

\$265M IN FOREX INFLOWS

51% REVENUE INCREASE FROM PREVIOUS YEAR

35% LOAN INCREASE FROM PREVIOUS YEAR

1.4B LOANS TO CUSTOMERS

1000 EXPORT IMPORT TRANSACTIONS PER MONTH

2.5B DEPOSITS MOBILIZED

40% DEPOSIT INCREASE FROM PREVIOUS YEAR

728M GOVERNMENT BILLS PURCHASED

100M BIRR TO VISA CARD HOLDERS FOR THE YEAR

30M TAXES PAID

13,000 EMPLOYEES USING PAYROLL SERVICES

207,802 CUSTOMER TRANSACTIONS DURING THE YEAR

46% FOREIGN EXCHANGE INCREASE FROM PREVIOUS YEAR

1000 ATM USERS DAILY



PRESTIGE BANKING



SHAREHOLDERS' MEETING (November 24, 2012)



Prestige Banking

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

DIRECTORS' REPORT

Year ended 30 June 2013

Zemen Bank's Board of Directors is pleased to present the 2012/13 Annual Report to its esteemed shareholders, clients, and partners. In what follows, we present an overview of our overall results during the just completed fiscal year and outline briefly our plans for the period ahead.

Financial Performance

Zemen Bank has completed the 2012/13 year with continued growth in revenue and profit levels thanks to the strong expansion registered in multiple banking segments. The Bank's pre-tax profits reached Birr 123.8 million, reflecting gross revenue of Birr 405.1 million that was offset by Birr 281.3 million in expenses. Operating profit—which measures underlying growth trends and excludes year-end deductions for amortization, depreciation, and provisions—rose from Birr 143.1 to Birr 236.4 million, or a growth of near 65 percent for the year. Profit after tax rose 9 percent from Birr 86.4 million to 94.1 million, compared to a growth of just 2 percent in the previous fiscal year.

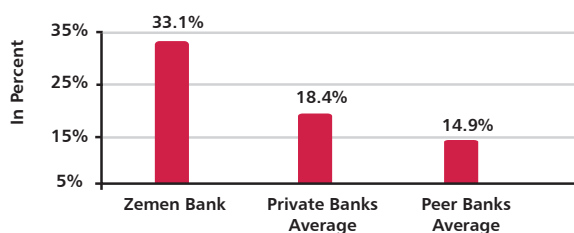
As in years past, the Bank's profit level shows a strong rate of return when measured against our capital and our total assets. The Bank's net profit after tax result of Birr 94.1 million translates into a return on average equity of 33.1 percent as well as a return on average assets of 3.3 percent. Expressed relative to the paid-up capital of our shareholders,

which averaged Birr 229 million during the year, the net income outturn is equivalent to an earnings per share of 41.0 percent. By way of comparison, as of June 2013, the estimated return on average equity among Ethiopia's private banks was 18.4 percent while the return on average assets was 2.5 percent; the corresponding figures among Zemen Bank's peer banks were 14.9 percent and 2.2 percent respectively.

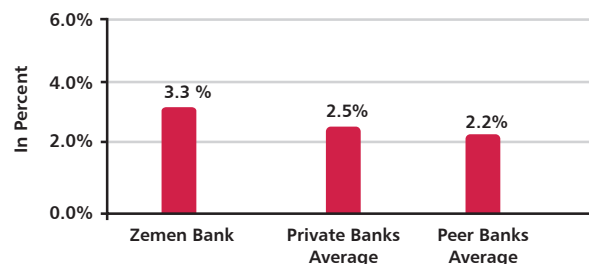
Zemen Bank's strong financial performance continues to be propelled by the Bank's distinctive model, through which we offer corporate-focused and technologically-driven banking services that are delivered via multiple channels (such as internet banking, ATMs, POS terminals, Foreign Exchange Bureaus, and Banking Kiosks). This business model has allowed for a favorable structure of the Bank's revenue, expenditure, and balance sheet, as described below:

Revenues: The Bank collected gross revenue (excluding interest and provision deductions) of Birr

Return on Equity (RoE) GRAPH 1



Return on Assets (RoA) GRAPH 2



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Z-CLUB BANKING

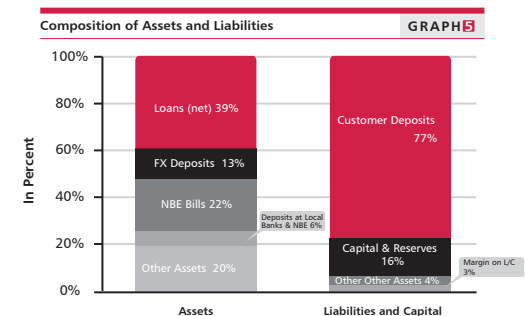
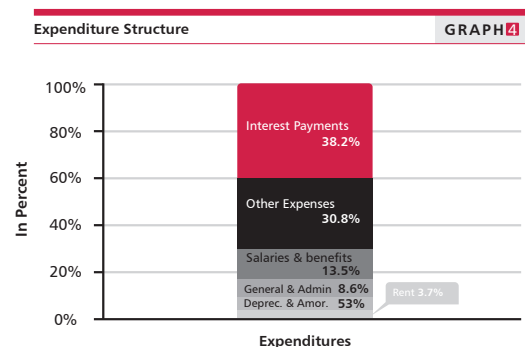
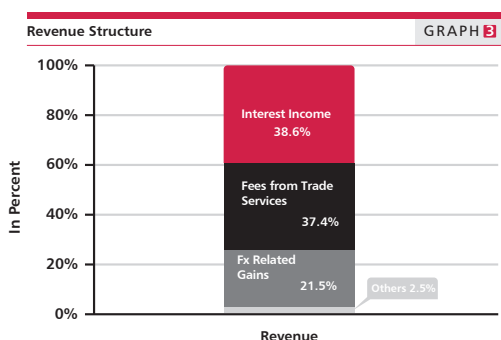


405.1 million during the year, a 51 percent increase from the previous fiscal year's outturn of Birr 266.1 million. The two largest revenue sources for the bank are interest income on our loans (Birr 150.1 million or 37 percent of total revenue) and service fees charged on trade operations (Birr 144.6 million or 36 percent of total revenue). A third revenue source, gains from foreign exchange related operations, provided Birr 101.8 million or about one-fourth of total revenues. With our expanding loan book, the Bank's revenue structure has become more diversified and less susceptible to a slowdown in any one particular line of activity such as credit or international banking. Moreover, even within our credit and international banking operations, our revenue sources have become spread out over a steadily expanding pool of corporate and individual customers.

Expenditure: The Bank's operational expenses were dominated by spending on interest payments (Birr 100.5 million), salaries and benefits (Birr 35.5 million), general and administrative items (Birr 22.6 million), depreciation and amortization (Birr 13.9 million) and rent (Birr 9.7 million). Contrary to our expectations, and despite strong efforts exerted during the year, the Bank incurred a much higher than anticipated loan provision expense due mainly to three specific loans that became non-performing during the year (see next section for details). Despite this increase in loan provisions, the Bank's cost-to-income ratio excluding one-off items (which is a key measure of efficiency used in the banking sector) remained low at below 30 percent for FY 2012/13,

towards the lower range in the Ethiopian banking industry. This lean operational cost base continues to be helped by our unique business model and remains an important driver of our present and future profitability.

Balance Sheet: The Bank's balance sheet expanded by 36 percent during the year, rising from Birr 2.4 to 3.2 billion. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits (Birr 2.5 billion), shareholder funds (Birr 343.8 million), and various miscellaneous liabilities (Birr 249.5 million). The counterpart to these funds collected from customers and shareholders are four main assets: loans and advances after provisions (Birr 1.3 billion); NBE and Treasury Bills (933 million); foreign exchange deposits at foreign banks (Birr 411 million); and deposits at local banks and NBE (Birr 183 million). The Bank continues to have a strong capital base, with a capital adequacy ratio of 24 percent of risk-weighted assets, or three times the regulatory minimum of 8 percent. Moreover, in line with our prudent banking practices, the Bank's liquidity ratio



Z-Club

Z-Club offers the highest level of banking services available. A specialist Personal Banker is assigned to you to help with all your financial needs. To qualify, you should maintain a minimum monthly balance of Birr 500,000. The Z-Club account brings with it the most preferential interest rates (5.75%), free cash delivery/collection services (limit of two per month), and the privilege of using our dedicated mezzanine floor, including use of our conference rooms with free internet services, for your business needs.

(liquid assets to total deposits) was well above the 20 percent regulatory requirement throughout the year and stood at near 40 percent at end-June 2013.

Dividend Payout Proposal

Based on the financial results of the fiscal year, Birr 70.2 million has been transferred to retained earnings reflecting several notable deductions to the Bank's gross profits. First, reflecting a 25 percent effective tax rate (due to several non-taxed items such as interest on NBE/Treasury Bills), a tax deduction of Birr 29.7 million reduces the net profit after tax to Birr 94.1 million. This figure, in turn, is subject to two deductions on account of Legal Reserves (Birr 23.5 million) and Directors profit-share (Birr 0.4 million). The remaining figure amounts to Birr 70.2 million and is the sum transferred to retained earnings in FY 2012/13. The Board of Directors proposes that the full amount of retained earnings be transferred to shareholders in the form of dividend payments. Based on the year-average paid-up capital of the Bank, the proposed dividend to shareholders amounts to near 31 percent per share.

Banking Operations

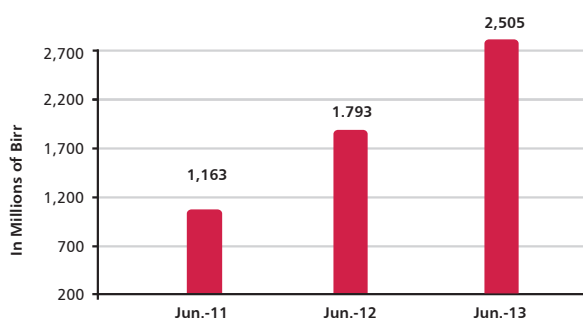
As it marks the fifth year of operations, Zemen Bank has continued to show strong and above-average

growth in the three key areas of commercial banking operations—collecting deposits, providing loans, and securing the foreign exchange funds needed to facilitate trade related services.

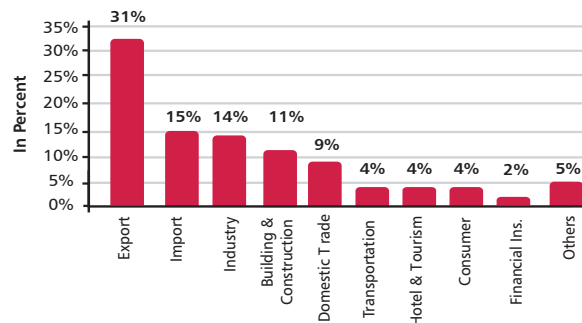
Deposits:

Zemen Bank boosted its deposit base by close to 40 percent in its fourth year, with total deposits mobilized reaching Birr 2.5 billion at end-June 2013 from a level of just Birr 1.8 billion a year earlier. Zemen Bank continued to offer competitive interest rates on its deposits and remains the only bank that pays interest to its savers on the basis of the average daily account balance during a given month rather than using the lowest account balance of that month. The average size of a deposit at Zemen Bank (approximately Birr 171,000) continues to be several multiples of the norm seen at other private banks, in line with our distinctive business model. The composition of deposits has moved in line with the Bank's strategic objectives: long-term deposits in the form of CDs are now only 5 percent of total deposits (versus 34 percent two years ago), while the share of savings deposits and checking deposits are 70 percent and 25 percent respectively. The higher share of checking deposits together with the reduction in time deposits are favorable developments that have helped reduce the Bank's interest costs.

Deposit Trends:2011-13 GRAPH 6



Loan Book Composition GRAPH 7



Multi-channel banking services:

Zemen Bank's banking services continue to be delivered via a range of banking channels, all tailored to the demands and preferences of particular client segments. Accordingly, based on their needs, our customers use service points that may include physical outlets (such as our main branch and corporate kiosks) as well as technology-aided channels (such as our ATMs, POS devices, internet banking, and phone banking services). To provide a snapshot of our activities in these multiple service delivery channels:

- Our Main Branch has shown substantial growth in all areas of its operations, driven by a 25 percent increase in the number of deposit accounts at the Bank last year. In line with the rising number of accountholders, the Bank registered 30 percent growth in cash and cheque transactions at our branch during the year.
- Our Kiosk network has continued offering services at six locations and includes banking kiosks providing services to dedicated corporate customers (e.g., Embassy of Sweden, Embassy of the Netherlands, Sher Ethiopia PLC, and Emirates Airlines) as well as those serving the broader public (e.g. at the Main Post Office and Wabe Shebelle Hotel).
- Our ATMs are being used on average around 600 times every single day, a growth of 50 percent from a year ago. On a monthly basis, our ATM network is utilized by close to 20,000 customers making Birr 33 million in cash withdrawals per month.
- Our Internet facilities are utilized more than 130 times every single day, or about 4,000 times per month, providing a very convenient channel to our corporate and personal clients. Over the past two years, our customers have

accessed our internet banking facilities over 81,000 times to fulfill their banking needs, including for electronic fund transfers to other accounts.

- Our Doorstep Banking services are helping numerous local and foreign companies improve their cash and treasury management thanks to our convenient cash delivery and pick-up services. Close to 1,200 Doorstep Banking related trips have been completed as part of our dedicated service to large corporate businesses with very high cash turnover.
- Our corporate payroll services have been serving close to near 13,000 employees on a monthly basis, with beneficiaries ranging from field workers at several large commercial farms to the staffs of embassies, international organizations, and foreign investors within Addis Ababa. A total of more than Birr 112 million has been paid out as part of our corporate payroll services during the course of the year.

Credit:

The Bank's total lending (net of provisions) has reached close to Birr 1.3 billion in June 2013 from Birr 1 billion year earlier. The loan-to-deposit ratio was 51 percent at year-end, but is closer to 80 percent considering the Bank's purchase of NBE Bills, in line with central bank directives. Various loan activity indicators showed strong growth: the number of loans rose 36 percent from 841 to 1,141 while monthly interest income jumped by more than 22 percent from Birr 12.3 million in June 2012 to near Birr 15 million in June 2013. Regarding the composition of loans, export-related loans continue to show the highest share (31%), followed by Building & Construction (15%), import-related loans (14%), Domestic Trade & Services (11%) and Industry (9%).

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

Zemen Bank continues to have a high share of its loans devoted to sectors accorded high national priority, such as exports, industry and construction. With respect to loan quality, a very challenging part of our credit operations in 2012/13 has been the management of the Bank's non-performing loans (NPLs). The Bank's NPL ratio has risen from around 3 percent in 2011/12 to near 8 percent in 2012/13, mainly on account of three loans—provided to a car assembly plant, a sesame exporter, and a cattle exporter—that ceased making payments during the year. The causes of the deterioration in loan quality reflected a combination of external and internal factors, among the latter being the Bank's aggressive entry into certain fast-growing sub-sectors of the export and manufacturing business. In recognition of the greater-than-anticipated risks with the above approach, the Bank's Management and Board of Directors have since instituted much stronger controls to limit our exposure to large loans and to clean loans. Encouragingly, excluding the above-noted three borrowers who are all being pursued via litigation to ensure a recovery of the loans, the Bank's NPL ratio on the remainder of its loan portfolio was 1.7 percent and tighter credit appraisal procedures are now in place to reduce overall NPLs towards such low levels.

International Banking:

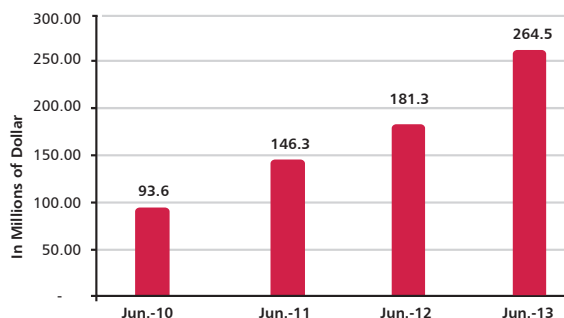
International banking services continued to be one of the dominant sources of the bank's income, thanks to \$265 million in foreign exchange inflows collected by the Bank during the past year. Foreign exchange inflows averaged \$22 million per month, a growth rate of 46 percent from the \$15 million in monthly inflows of the prior fiscal year. Although exports nationwide have not done as strongly as expected (given a slight drop in Ethiopia's total exports compared to a year ago), the Bank has continued to see double-digit growth in the export shipments of its clients, especially those in

the flowers, vegetables, meat and live animal sub-sectors. Reflecting such improved performance among most of our exporters, we estimate that Zemen Bank is now capturing foreign exchange inflows that are equivalent to around 15 percent of the country's exports channeled through private banks (as roughly half of the country's USD 3.1 billion in total exports last fiscal year is estimated to have been channeled via the state-owned banks). In terms of activity levels, the International Banking Department now processes close to 1,000 export, import, and transfer transactions per month and completed a total of about 12,000 transactions during the course of the year. The Bank has expanded its correspondent banking and RMA relations with 79 banks covering over 30 countries, including active correspondent account relationships with global financial institutions such as Citibank, Commerzbank, ABN AMRO, and JP Morgan Chase.

Human Resources and Administration:

To fully support the rapid growth of the many operational activities noted above, the Bank continued the upgrading and strengthening of its staff capabilities, its administrative systems, and control environment. In this regard, the Bank's staff headcount has been raised from 249 to 317 during the fiscal year, with a continued focus placed on recruiting the most talented and experienced professionals available in the market. Training of staff continues to be accorded special attention,

Trend in FX Inflows: 2010-13 GRAPH 8



ON LINE BANKING



with 20 staff receiving training abroad and 186 staff receiving training domestically in the areas of credit appraisal, project finance, risk management, new product development, trade finance, international banking, and Anti-Money Laundering. A large number of the Bank's front-line staff have undergone a tailored customer service training program—developed by top trainers from the US—in an effort to make our client services in this area among the best in the industry.

Risk Management:

A fully separate Risk Department continues to lead the Bank's work on risk identification, monitoring, and mitigation. With a NBE-approved Risk Management Program in place, the Bank has systems in place to monitor many risk components including credit risk, liquidity risk, market risk, operational risk, and strategic risk. Regular quarterly assessments undertaken this past year include detailed case-by-case loan file reviews, a credit scoring system to evaluate borrower risks, and the use of Value-at-Risk models to forecast required provisioning levels. The task of regularly identifying and mitigating risks continues to be supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Committee and Loan Review Committee.

Multi-channel banking services

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

Improving our Core Banking System to handle a greater range of operational activities:

The Flexcube core banking software of Oracle Financial Solutions Services, a highly reputed provider of banking solutions that is operational in more

than 100 countries and 250 financial institutions worldwide, is now in its third year of deployment at Zemen Bank. In the just completed fiscal year, the Bank has worked to finalized implementation of remaining Credit Module functionalities and improved the reporting and service capabilities of this software solution to enhance the speed, safety, and efficiency of our internal operations.

ATMs:

The Bank's rollout of its ATM network has continued this past year and the Bank now has a total of 35 ATMs. With a further 10 ATMs being purchased shortly, a total of 45 ATMs will be functional by end 2013. Our ATM service continues to distinguish itself by not charging withdrawal fees for Zemen Bank customers and is currently the only one in the market that offers customers the ability to transfer funds from one account to another account via the ATM. Through a collaboration with Dashen Bank under the "Q-Link" network, the first such ATM partnership active in Ethiopia, the customers of Zemen and Dashen Banks are both able to benefit from a total network of more than 100 ATMs at locations throughout Addis Ababa and several regional cities.

Point of Sale Terminals:

Following an unanticipated delay, a large order of Point of Sale terminals is now being deployed this fiscal year, contributing to the usage of non-cash payment methods within the local economy. In this context, a roll-out of over 50 POS terminals at various retail locations (hotels, restaurants, stores) is anticipated by end-2013.

Internet Banking:

Zemen Bank's internet banking facility, which is accessed more than 4,000 times on a monthly basis, continues to provide a special level of convenience to both personal and business clients who need to regularly track, print, or download their transaction activity. The Internet Banking service continues to

Online Banking

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

provide customers the ease of being able to make transfers to other accountholders online—the first ever such service in Ethiopia. Other features of the Internet Banking service include a Corporate Payroll Facility, which allows companies to make use of a payroll payment feature whereby monthly salary deductions are effected online from a company's account and automatically credited to its designated employee accounts. Customers can also view and monitor their loan balances and statements through our internet banking service.

Doorstep Banking:

As part of our on-going efforts to offer customized services that address the needs of customers, we have strengthened in the past year a very successful "Doorstep Banking" initiative tailored to corporate clients. This new service has addressed the needs of companies with high daily cash turnover who want a simplified means of depositing and withdrawing funds from their business accounts. With all the relevant logistical, security, and insurance requirements in place, we deliver or pick-up cash from our corporate clients who are signed up for this service, relieving them of the need to travel to/from our Branch and saving them valuable time to focus on their core business.

Outlook for the year ahead

In the year ahead, the Bank will continue to expand the full range of commercial banking services it has been offering since its establishment: providing deposits at attractive interest rates; extending loans for different sectors and at varying maturities; and offering international banking services linked to the country's export, import, remittance and foreign direct investment activities. Strong efforts will be directed towards the recovery of last year's non-performing loans, which would allow for a reversal of the provision expense that was taken last fiscal year. In line with our strategy of expanding our multiple service delivery channels, we will open a second full-fledged banking center in Addis Abeba,

move our services to several selected regional cities, and continue our expansion of ATMs, POS terminals, and Banking Kiosks. We have temporarily put on hold our full-fledged mobile banking service, as the regulatory and operational framework remains under review by the relevant authorities, but will be implementing an SMS Banking service that will allow Zemen Bank accountholders the ability to view balances and conduct fund transfers via their mobile phones.

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

Regional Banking Centers, Corporate Kiosks, and a Second Location in Addis Abeba:

This fiscal year will see the expansion of Zemen Bank's distinctive banking services to selected locations outside of Addis Abeba. In addition, within Addis Abeba, we expect to open a few corporate-based kiosks as well as a second full-fledged banking center to offer an alternative service point to our ever-growing number of retail and corporate clients. Our expansion strategy will maintain the high standards that clients have become accustomed to at our main branch and will not compromise on our service offerings, be it in the comforts of our physical locations or the quality and efficiency of our customer service.

Capital Increase:

To support the Bank's fast-growing operations, the Board of Directors will propose a Birr 100 million increase in the Bank's capital base at the Annual General Meeting of Shareholders in September 2013. This increase will raise our paid-up capital to near Birr 450 million and allow the Bank to provide a larger volume of loans (including larger loan amounts to any single borrower) and will also give us greater flexibility in our foreign exchange operations. As before, existing shareholders will be given the opportunity to contribute towards the capital increase.

Mortgage Loans



Corporate Loans



Personal Loans



Competitive savings rate:

Zemen Bank will continue to offer the most competitive savings rate in the industry with its 5.5 percent minimum deposit rate on all accounts above Birr 25,000. The Bank offers even better rates for customers that place higher value deposits at the Bank: 5.6 percent for Prestige Banking savings accounts and 5.75 percent for Z-Club savings accounts. With this interest rate offer, the Bank is playing a small part in encouraging a national culture of savings and, through this process, in raising the volume of savings available for investments in the economy as a whole.

Finalization of Headquarters Design:

Following its lease of a 2,300 square meter plot of land from the Addis Abeba City Administration in the middle of the city's Financial District, Zemen Bank will in the coming year continue work on the detailed architectural design for its headquarters. With the preliminary architectural design work near completion, there will be a move towards the final architectural design work, including for all the relevant engineering disciplines. The process of putting out bids for the selection of a building contractor is expected to be conducted this fiscal year. A full review of the appropriate financing modalities for the new building will also be conducted early in the fiscal year.

Mastercard:

After its successful entry into the VISA International network in early 2012, Zemen Bank has also now successfully joined the Mastercard payment network. The work of commissioning our ATMs and POS devices to accept Mastercard labeled cards is now near completion, providing very soon an even wider pool of international users access to local currency funds at our ATMs.

Collaborative work with international organizations:

Zemen Bank continues to collaborate with several external agencies to support innovative financing facilities. Our two current partnerships with USAID and KfW involve guarantee schemes that provide risk cover to loans that we offer to the agricultural sector and to micro-finance institutions (MFIs). Consistent with our strategic objectives as well as with Ethiopia's Growth and Transformation Plan, the Bank will continue to allocate a dedicated pool of funds to such initiatives that have encouraged agricultural innovators and small-and-medium size enterprises operating across a range of business fields.

Equity Investments:

Zemen Bank expects to initiate a very limited number of equity investments this fiscal year, in line with NBE Directives that permit individual investments of up to 10 percent of a Bank's capital and 20 percent of an investee company's capital. A Board-approved policy framework and procedure has recently been completed for this purpose and initial investments in well-established and financially-sound investment opportunities will be explored.

In conclusion, true to its founding vision and mission, Zemen Bank will be broadening its multi-channel banking services in the year ahead, including by reaching out beyond Addis Abeba for the first time since its founding five years ago. Such steady and strategically selected expansions will continue in the years ahead, thereby widening the beneficiaries of our distinctive products and services while also delivering satisfactory profits and dividends to our shareholders.

Mortgage Loans

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

Corporate Loans

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

Personal Loans

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

CUSTOMER SNAPHOTS



18

DOORSTEP BANKING



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



DoorStep Banking

Check, CPO, Cash collection and delivery services

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

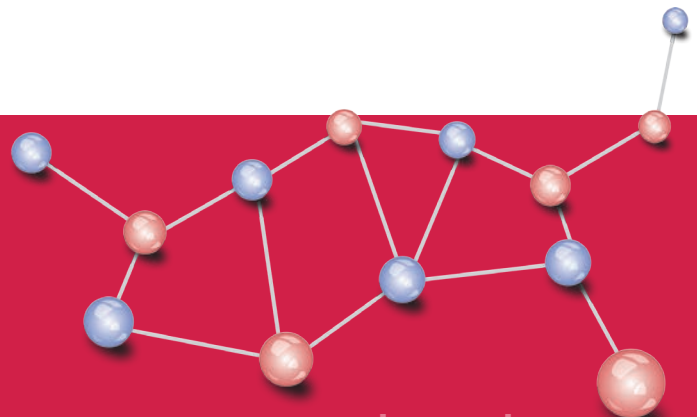


“ For top performance off-the-field... my choice

- Athlete

DEPOSITS | LOANS | FOREX | CORPORATE BANKING | ATMS

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... is Zemen Bank."

/ Entrepreneur Haile Gebreselassie

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Financial Solutions from A to Z

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Welcome to Ethiopia's largest ATM network!

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

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Earn Interest Every day...

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

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

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

MODERN BANKING SERVICES

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

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





AUDITORS' REPORT

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ATMs

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

On line Banking

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

Call Center 00251 (0)11 550 1111

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

Mobile Banking [coming soon]

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

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

We have audited the accompanying financial statements of Zemen Bank Share Company (hereinafter referred to as the Bank) for the year ended June 30, 2013 set out on pages 26 to 38, which have been prepared under the accounting policies set out on page 29.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the preparation and fair

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

Opinion

In our opinion, the financial statements represent fairly the financial position of the Bank as at June 30, 2013, and its profit and cash inflows for the year then ended.

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



GETACHEW KASSAYE & CO.
CHARTERED CERTIFIED ACCOUNTANTS

Addis Ababa
September 6, 2013





“ WE SPEAK . . .
MANY CURRENCIES ! ”

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

Debit Card

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

ZEMEN BANK S.C.
BALANCE SHEET
 AS AT 30 JUNE 2013
 In Ethiopian Birr

ASSETS		<u>June 30,2013</u>	<u>June 30, 2012</u>
Cash and balances			
Cash on hand	4	190,416,123	94,271,178
Deposits with local commercial banks		11,279,318	12,854,572
Deposits with foreign banks		410,845,486	473,193,189
Deposits with National Bank of Ethiopia	5	172,096,879	244,959,234
		<u>784,637,806</u>	<u>825,278,173</u>
Items in course of collection from other banks	6	12,188,841	26,584,174
Loans and advances to customers	7	1,252,925,820	994,558,320
Treasury Bills		204,528,500	74,827,500
NBE Bills		728,916,887	390,683,887
Special CD		134,104,000	
Equity Investment	8	5,031,000	1,259,000
Other assets	9	66,079,314	34,103,499
Leaserhold land	10	7,461,530	-
Tangible Fixed Assets	3.1,11	28,023,710	22,774,916
Intangible Assets	3.2,12	24,582,052	24,172,628
TOTAL ASSETS		<u><u>3,248,479,460</u></u>	<u><u>2,394,242,097</u></u>
LIABILITIES			
Deposits From Customers			
Demand		626,349,434	395,192,346
Saving		1,772,572,818	1,137,899,821
Fixed		106,604,291	259,790,663
		<u>2,504,926,543</u>	<u>1,792,882,830</u>
Margin held on letters of credit		109,118,199	80,414,345
Other liabilities	13	103,382,511	97,345,479
Payable to Shareholders		1,853,022	106,059,276
Leasehold land payable		6,047,650	-
Provision for taxation	20	29,664,908	36,939,793
TOTAL LIABILITIES		<u>2,754,992,833</u>	<u>2,018,267,483</u>
CAPITAL AND RESERVES			
Share capital	14	343,813,000	149,576,000
Share Premium		425,000	425,000
Legal reserve		79,055,058	55,518,571
Retained earnings		70,193,569	75,080,803
TOTAL CAPITAL AND RESERVES		<u>493,486,627</u>	<u>280,600,374</u>
TOTAL LIABILITIES, CAPITAL AND RESERVES		<u><u>3,248,479,460</u></u>	<u><u>2,394,242,097</u></u>



Dr. Berhane Ghebray
Chairman Of The Board



Tsegay Tetemke
President /CEO

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

ZEMEN BANK S.C.
PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2013

In Ethiopian Birr

INCOME	Notes	<u>June 30.2013</u>	<u>June 30, 2012</u>
Interest Income	3.4	150,114,285	102,833,130
Less: Interest expense	3.4	(100,522,326)	(66,123,160)
Net interest income		<u>49,591,959</u>	<u>36,709,970</u>
Less: Provision for doubtful loans and advances		(98,596,589) (49,004,630)	(6,641,528) 30,068,442
Service charge	15	144,593,222	99,681,986
Commissions		2,021,424	2,065,927
Net gain on foreign exchange dealings and fluctuations		101,788,481	57,446,887
Other income	3.6,16	6,533,334	4,592,887
		<u>205,931,831</u>	<u>193,856,129</u>
EXPENSES			
Salaries and benefits	17	35,498,809	23,089,334
Rent		9,670,559	5,894,952
Depreciation and amortization		14,070,690	13,199,692
General and administrative	18	22,535,669	18,981,475
Directors' monthly allowances		190,000	178,000
Audit fee		155,250	143,750
Special audit fee		-	57,000
Special Provision		-	9,000,000
		<u>82,120,977</u>	<u>70,544,203</u>
PROFIT (LOSS) BEFORE TAXATION		123,810,854	123,311,926
Provision For Taxation	20	(29,664,908)	(36,939,793)
PROFIT (LOSS) AFTER TAXATION		94,145,946	86,372,133
Transfer To Legal Reserve		(23,536,487)	(21,593,033)
NET PROFIT AFTER TAX AND LEGAL RESERVE		70,609,459	64,779,100
Board of Directors' remuneration	21	(415,890)	(383,333)
Transfer to retained earnings-current year income		<u>70,193,569</u>	<u>64,395,767</u>
Transfer to retained earnings-previous years' income		<u>410 (41%)</u>	<u>577 (57.7%)</u>
Earnings Per share	22	<u>410 (41%)</u>	<u>577 (57.7%)</u>

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



ZEMEN BANK S.C.
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

INCOME	June 30,2013	June 30, 2012
Cash Flow from Operating Activities		
Profit before tax	123,810,854	123,311,926
Depreciation and amortization	14,070,690	13,199,692
	137,881,544	136,511,618
Decrease (Increase) in items in course of collection	14,395,333	(21,695,680)
Decrease (increase) in other assets	(31,975,815)	(26,059,566)
(Increase) in loans and advances to customers	(258,367,500)	(360,822,405)
Increase in demand deposits	231,157,088	138,551,354
Increase in saving deposits	634,672,997	406,138,808
Increase in fixed deposits	(153,786,372)	85,633,240
Increase in margin held on letters of credit	28,703,854	24,132,765
Increase in other liabilities excluding promoters' and directors' share in profit	5,621,142	(10,291,457)
Income tax Paid	(36,939,793)	(36,423,326)
Net Cash Inflow/(Outflow) from Operating Activities	571,362,478	335,675,351
Cash flow from investing activities		
Purchase of fixed assets	(13,120,924)	(6,453,854)
Investment in intangible assets	(6,509,950)	(9,957,282)
Leasehold land	(1,511,914)	-
Treasury Bills Purchased	(129,701,000)	(74,827,500)
Increase in NBE bills purchased	(338,233,000)	(174,200,00)
Increase in Special Certificate of Deposits	(134,104,000)	-
Equity Investment	(3,772,000)	1,259,000)
Net cash received from (used in) investing activities	(626,952,788)	(266,697,636)
Cash Flow from Financing Activities		
Increase in shareholders payable	104,206,254	106,059,276
Proceeds from issue of share capital	194,237,000	-
Share premium collected	-	-
Dividend Paid	(75,080,803)	(56,782,940)
Net cash received from (used in) financing activities	14,949,943	49,276,336
Net Increase in Cash For the Year	(40,640,367)	118,254,051
Cash Balance at the Beginning of the Year	825,278,173	707,024,122
Cash Balance at the End of the Year	784,637,806	825,278,173

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

1. BACKGROUND

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

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

2. BASIS OF PREPARATION

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Fixed assets

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

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

3.2 Intangible assets

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

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

3.3 Leasehold land

The bank has acquired 2,304 sq. km lease hold land from Addis Ababa City Government Administration for the period of 60 years terms and amortized over lease term.

3.4 Interest income and expenses

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

3.5 Bonus

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

3.6 Other income

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

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 30 JUNE 2013
In Ethiopian Birr

3.7 Conversion of foreign currencies

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

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

3.8 Off-setting

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

3.9 Provisions for loans and advances

Loans and advances are financial instruments originated by the bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses. Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provisions against losses which are likely to be present in any loans and advances portfolio. The Bank follows the National Bank of Ethiopia, Supervision of Banking Business Directive SBB43/2008 in determining the extent of provisions for impairment losses. The Directive classifies loans and advances into the following;

i Pass Loans

Loans and advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. In general, loans and advances, which are fully secured, both as to principal and interest, by cash or cash substitutes, are classified under this category regardless of past due status or other adverse credit factors.

ii Special Mention

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

iii Substandard

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

iv Doubtful

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

v Losses

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

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

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

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

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

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

FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

		June 30, 2012
4. CASH ON HAND		
Local currency	187,967,042	83,200,121
Foreign currency	2,449,081	11,071,057
	190,416,123	94,271,178
5. DEPOSITS WITH NATIONAL BANK OF ETHIOPIA		
Statutory reserve balance	132,896,000	178,000,000
Payment and settlement account	39,200,879	66,959,234
	172,096,879	244,959,234
6. ITEMS IN COURSE OF COLLECTION FROM OTHER BANKS		
Outward bills purchased	11,803,697	587,567
Outward documentary bills purchased	-	25,996,607
Claim on Head Office and branch	385,144	-
	12,188,841	26,584,174
7. LOANS AND ADVANCES TO CUSTOMERS		
Agriculture	18,381,354	5,115,082
Manufacturing	128,219,913	110,239,492
Domestic trade and services	156,203,725	78,562,787
Transport and communication	53,606,408	67,380,959
Hotel and tourism	57,967,693	54,008,637
Export	429,248,633	324,279,971
Import	190,471,393	200,356,330
Building and construction	206,120,225	97,571,747
Mines, Power, and Water Resource	4,207,867	5,272,230
Financial Institutions	21,331,681	10,403,608
Personal	58,103,510	33,127,199
Others	45,792,270	26,372,541
	1,369,654,672	1,012,690,583
Less: Provision for doubtful debts and advances	(116,728,852)	(18,132,263)
	1,252,925,820	994,558,320
8. EQUITY INVESTMENT		

All banks operating in Ethiopia formed a company called EthSwitch S.C to establish a central switch for card banking. The company has a subscribed capital of Birr 75,465,000.00 and Zemen Bank has subscribed for shares of Birr 5,031,000.00 and paid the full amount of the subscriptions.

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

9. OTHER ASSETS	<u>June 30, 2012</u>	
Debtors		
- Interest receivables- NBE bills	9,992,886	9,883,932
- Interest Receivable-Special CD	1,223,469	-
- Dashen Bank S.C	9,606,117	3,165,420
- Withholding receivables	21,964	63,550
- Others	582,530	247,696
Less: Provision for doubtful debts other than loans	(87,000)	(87,000)
	<u>21,339,966</u>	<u>13,273,598</u>
Prepayments		
- Office rent	14,617,929	8,143,015
- Banking Software	4,444,656	3,346,158
- Head Quarter Buildings	16,269,087	13,314,240
- Others	5,853,541	2,190,955
Less: Amount Held In Blocked Account For Head Quarter Buildin	(11,289,600)	(11,289,600)
	<u>29,895,613</u>	<u>15,704,768</u>
Supplies stock		
-Stationery	822,484	699,594
-Check books & CPOs	501,656	511,807
-Uniforms	52,420	27,899
-Furniture and fixtures in stock	22,199	12,473
-Office and other equipment in stock	502,724	340,347
-Computer and accessories in stock	3,775,258	2,023,467
-Sundry materials	522,319	406,496
	<u>6,199,060</u>	<u>4,022,083</u>
Acquired Properties	8,644,675	1,103,050
	<u>66,079,314</u>	<u>34,103,499</u>

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

10. LEASEHOLD LAND

Cost	Birr
Less: Amortization	7,559,563
	<u>98,033</u>
	<u>7,461,530</u>

The bank has acquired 2304 Sq. meter land from A.A City Government Land Administration and Building Permit Authority at Birr 3,281.06 per square meter for its Head Office Building Construction. The formal lease agreement was signed on September 20, 2012 with 60 years lease term.

11. TANGIBLE FIXED ASSETS

Cost	Balance 30.6.2012	Additions	Balance 30.6.2012
Computer hardware	20,609,139	4,043,015	24,652,154
Furniture and fixtures	9,976,246	1,014,990	10,991,236
Office and other equipment	5,186,243	1,010,474	6,196,717
Motor vehicles	9,878,045	7,052,445	16,930,490
	<u>45,649,673</u>	<u>13,120,924</u>	<u>58,770,597</u>
Accumulated depreciation			
Computer hardware	10,792,921	3,464,808	14,257,729
Furniture and fixtures	4,979,418	1,202,364	6,181,782
Office and other equipment	2,185,213	802,301	2,987,514
Motor vehicles	4,917,205	2,402,657	7,319,862
	<u>22,874,757</u>	<u>7,872,130</u>	<u>30,746,886</u>
Net Book value	<u>22,774,916</u>		<u>28,023,711</u>

12. INTANGIBLE ASSETS

Cost	Balance 30.6.2012	Additions	Balance 30.6.2013
Computer software	24,220,929	2,546,821	26,767,750
Capitalized expenditure	8,379,290	-	8,379,290
SWIFT implementation cost	577,968	-	577,968
Software Under Progress	7,243,835	3,963,130	11,206,965
	<u>40,422,022</u>	<u>6,509,951</u>	<u>46,931,973</u>

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

Accumulated Amortization

Computer software	9,531,450	4,309,075	13,840,525
Capitalized expenditure	6,284,467	1,675,858	7,960,325
SWIFT implementation cost	433,477	115,594	549,071
	<u>16,249,394</u>	<u>6,100,527</u>	<u>22,349,921</u>
Net book value	<u>24,172,628</u>		<u>24,582,052</u>

12.1 Capitalized expenditure cost of Birr 8,379,290 represents pre-operational costs after deduction of commission on share subscriptions and deposit interest income on share proceeds.

13. OTHER LIABILITIES

June 30, 2012

Dividend Payable	5,092,610	5,316,263
Tax payables	2,517,099	1,450,733
CPO payables	71,398,987	57,259,795
Exchange payable to NBE	6,929,999	7,075,812
Accruals	3,874,714	11,511,534
Directors' share of profit	415,890	383,333
Miscellaneous Payable	13,027,791	5,154,575
Gift Cards	125,421	193,434
Special Provision	-	9,000,000
	<u>103,382,511</u>	<u>97,345,479</u>

14. SHARE CAPITAL

Subscribed	<u>343,813,000</u>	<u>149,576,000</u>
Paid-up	<u>343,813,000</u>	<u>149,576,000</u>

14.1 As the Power of Attorney of the Addis Ababa University representative to the Zemen Bank Board is not yet authenticated, the Minutes of the November 2012 Annual General Meeting of shareholders have not been registered at the Documents Authentication and Registration Office.

15. SERVICE INCOME

Service charges - foreign	144,016,293	99,396,189
Service charges - local	576,929	285,797
	<u>144,593,222</u>	<u>99,681,986</u>

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

16. OTHER INCOME

		<u>2012</u>
Loan processing fee	2,130,598	1,871,586
Overdraft protection fee	231,424	178,878
Balance maintenance fee	2,138,382	1,517,315
SWIFT charge	28,749	32,315
Documentation fee	49,724	601,251
Miscellaneous	1,954,457	391,542
	6,533,334	4,592,887

17. SALARIES AND BENEFITS

		<u>June 30, 2012</u>
Salaries	19,740,086	13,161,625
Representation allowances	506,229	400,837
Overtime	636,727	264,714
Transport allowances	1,948,074	893,812
Mobile telephone allowances	202,561	97,518
Provident fund	2,923,883	1,953,913
Staff insurance and medical expenses	982,679	493,431
Training and education	1,743,067	791,146
Laundry allowance	158,258	102,508
Uniforms	665,828	430,513
Cash Indemnity	728,922	601,959
Housing allowance	6,000	6,000
Acting Allowance	14,491	10,600
Leave pay	1,291,826	799,522
Severance Pay	317,034	
Hardship Allowance	4,270	
Bonus	3,628,874	3,081,236
	35,498,809	23,089,334

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

18. GENERAL AND ADMINISTRATIVE EXPENSES

		<u>June 30, 2012</u>
Janitorial Services	331,123	267,948
Telephone, fax and internet	1,727,525	1,059,386
Stationery and printing	1,386,616	1,042,216
Advertisements	2,128,973	4,404,350
Annual License and registration fees	4,342,128	3,332,357
Maintenance and repair	991,162	787,924
Annual General Meeting	1,535,634	1,077,631
Utilities	297,211	299,614
ATM cards	27,913	76,161
IT service provider fee	746,691	232,996
SWIFT and correspondent charges	1,071,375	1,207,768
Commissions	212,795	149,451
Consultancy	123,723	127,307
Fuel and lubricants	1,028,258	848,051
Insurance	658,577	466,288
Membership and Subscriptions	95,178	100,038
Per-diem and travels	1,009,856	585,406
Legal	156,321	-
Visa Charges	3,347,817	1,164,098
Loss On Disposal Of Assets	-	18,142
Stamp Duty Charges	7,310	1,491
Entertainment	430,655	467,236
Donations	200,900	200,000
Sundries	677,928	1,065,616
	<u>22,533,669</u>	<u>18,981,475</u>

19. EMPLOYEE BENEFIT SCHEMES

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

All other employee benefits are in accordance with the Labor Proclamation No.377/2003 and Amendment No. 494/2

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

ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
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 In Ethiopian Birr

20. PROVISION FOR TAXATION

	Birr	Birr
Profit (Loss) before tax		123,810,845
Add: Donations	200,900	
Entertainment	430,655	
Non Deductible Representation allowance	913	
		632,468
Less: Interest on local deposits	(1,190)	
Interest on foreign deposits	(25,518)	
Interest on Special Certificate of Deposit	(1,223,469)	
Interest on Treasury Bills	(7,481,873)	
Interest on NBE Bills	(16,832,498)	
	(16,832,498)	25,564,548
Taxable profit		98,878,774
Profit tax at 30%		29,663,632
Tax on interest of foreign deposits at 5%		1,276
Provision for taxation		29,664,908

21. BOARD OF DIRECTORS' REMUNERATION

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

22. EARNINGS PER SHARE

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

23. COMPARATIVE FIGURES

Some comparative figures have been reclassified for better presentation

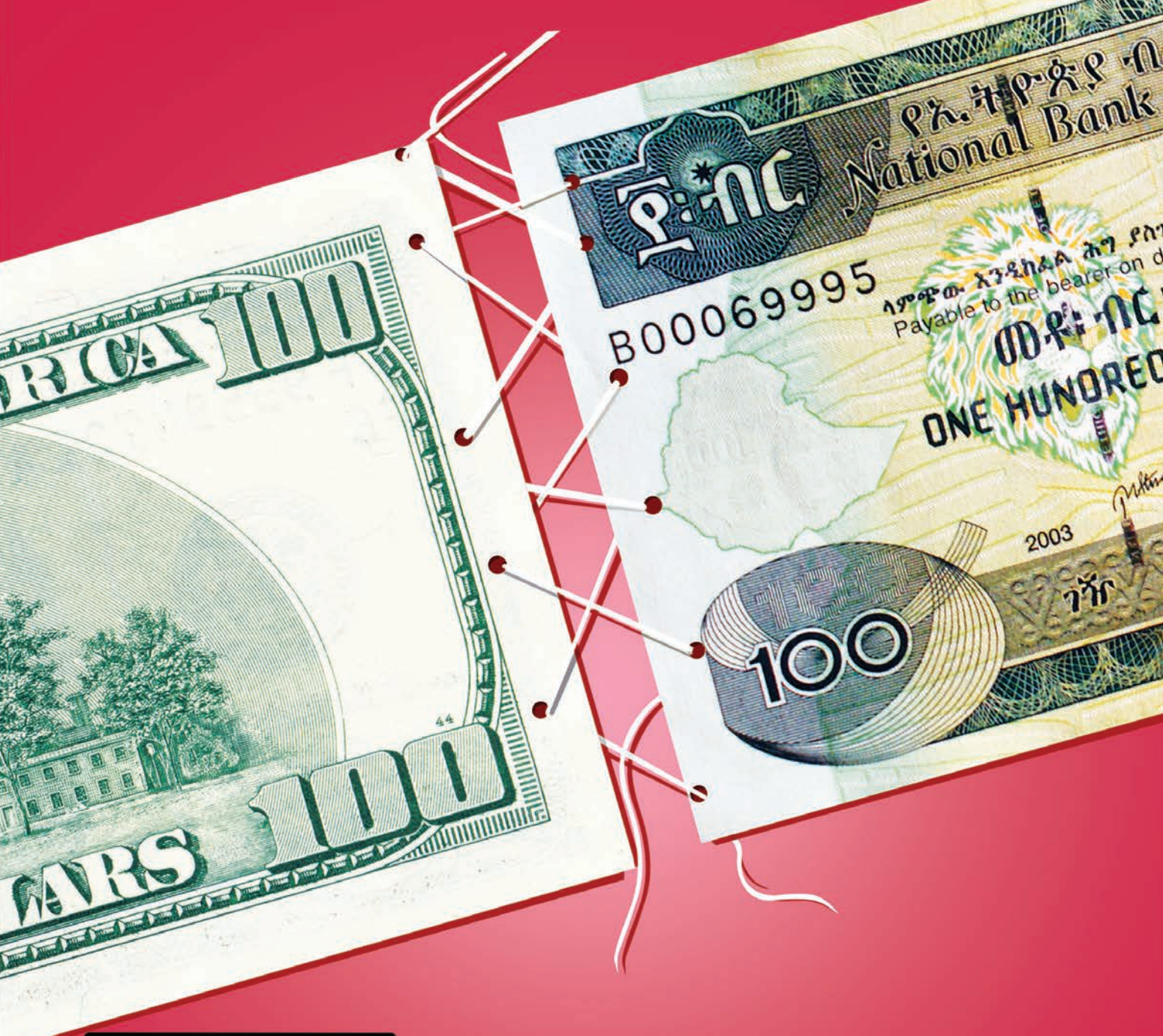
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ZEMEN BANK S.C.
**NOTES FORMING PART OF THE
 FINANCIAL STATEMENTS**
 FOR THE YEAR ENDED 30 JUNE 2013
 In Ethiopian Birr

24. CONTINGENT AND MEMORANDUM ITEMS

		June 30, 2012
24.1 Guarantees issued to customers	<u>22,619,022</u>	<u>67,843,857</u>
24.2 Commitments		
-Letters Of Credit	311,955,871	438,332,885
Less: Margins Held On Letters Of Credit	<u>(109,118,199)</u>	<u>(80,414,345)</u>
	<u>202,837,672</u>	<u>357,918,540</u>
- Inward Bills For Collection	<u>141,952,958</u>	<u>126,016,657</u>
- Overdrafts	Nil	Nil
- Loans and advances	<u>250,522,296</u>	<u>82,745,461</u>
24.3 Accrued Interest Receivable On Non Performing Loans	<u>13,034,075</u>	<u>1,159,244</u>

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



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