



# ANNUAL REPORT 2011



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**Zemen**  
BANK

Financial Solutions from A to Z  
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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



BOARD DIRECTORS



**Dr. Berhane  
Ghebray**  
Board Chairman



BOARD DIRECTORS



**Abebe Yitayew**  
Board Director



BOARD DIRECTORS



**Dr. Asmamaw  
Kelemu**  
Board Director



BOARD DIRECTORS



**Emebet Dejene**  
Board Director



BOARD DIRECTORS



**Kibreab Afwork**  
Board Director



BOARD DIRECTORS



**Neway Berhanu**  
Board Director



BOARD DIRECTORS



**Tameru  
Wondm Agegnehu**  
Board Director

PERSONAL  
BANKING

**P**ersonal  
BANKING



# SENIOR MANAGEMENT



EXECUTIVE MANAGEMENT



**Helaway Tadesse**  
Acting President



EXECUTIVE MANAGEMENT



**Ermias Eshetu**  
V.P. Marketing



EXECUTIVE MANAGEMENT



**Melaku Kebede**  
V.P. Technology



EXECUTIVE MANAGEMENT



**Sebhat Belayneh**  
V.P. International  
Banking



EXECUTIVE MANAGEMENT



**Solomon Ketema**  
Credit Department  
Manager



EXECUTIVE MANAGEMENT



**Solomon Mamo**  
Finance Department  
Manager



EXECUTIVE MANAGEMENT



**Firehiwot Birke**  
Branch Manager



EXECUTIVE MANAGEMENT



**Adugna  
Mekonnen**  
Business  
Development &  
Research Manager



EXECUTIVE MANAGEMENT



**Meseret Wondim**  
Controller



EXECUTIVE MANAGEMENT



**Demelash  
Demisse**  
HR & Operations  
Department  
Manager



EXECUTIVE MANAGEMENT



**Tesfaye Boru**  
Risk Management  
Department  
Manager

## Personal Banking

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

# CHAIRMAN'S STATEMENT

Year ended 30 June 2011

It is with great pleasure that I introduce to you the 2010/11 Annual Report of Zemen Bank. We have successfully completed a third year of operations and are pleased to inform our customers, partners, and shareholders that Zemen Bank has delivered once again! For the just completed fiscal year, the main message to our shareholders is the doubling of our overall performance in several key measures—we have doubled the number of depositors, doubled the number of borrowers, nearly doubled our international banking transactions, and more than doubled our profits! Considering that these results follow an already impressive second year, which witnessed the highest ever profit recorded for a bank in just its second year of operations, this continued accomplishment is a source of pride for all of us closely associated with the distinctive vision and mission of Zemen Bank.

As is often the case in the banking business, the overall macroeconomic environment has had a strong bearing on the bank's performance. In this respect, despite the jump in inflation which became a worrying feature of the economic environment during the year, the Bank benefited from Ethiopia's strong economic growth, from the near 40 percent increase in exports, and from continuing increases in foreign direct investment and other inflows that have raised the country's stock of foreign reserves. These developments, together with the Bank's special efforts, have propelled the expansion of our deposit-taking, lending, and international banking operations.

Beyond taking advantage of generally positive external conditions, the Bank has continued to strengthen its internal operations to sustain its unique model of providing banking services that rely mainly on a single branch whose activities are supplemented by multiple service points such as ATMs, POS terminals, Foreign Exchange Bureaus and Banking Kiosks. To this end, we continued to deliver innovative products and services to the Ethiopian marketplace. Besides providing the full range of normal commercial banking services, we have worked to distinguish ourselves by focusing on

superior customer service, by offering the best savings rate in the industry (up to 5.75 percent for regular savings deposits versus an industry norm of just 5.0 percent), and by delivering technology-based banking solutions (we remain, for instance, the only bank in Ethiopia offering both ATM and Internet Banking Services).

With respect to our overall operations and financial results, the enclosed Board of Directors' Report presents a comprehensive summary of the Bank's impressive financial and operational achievements. I would like to highlight, however, not just the impressive figures themselves but also the very responsible and prudent manner in which these results have been achieved. To highlight a few indicative examples, we have in the past year been:

**Lending to priority economic sectors such as exports and industry:** Contrary to the common misconception that Ethiopia's private banks focus their lending almost exclusively on sectors such as importers and domestic traders, Zemen Bank devotes 40 percent of its loan book to two key sectors widely recognized as national priorities. Indeed, the sectors to which we devoted the highest share of our loans were to exporters (23 percent of all loans) and to manufacturers (17 percent of all loans), areas which we believe can have transformative effects on Ethiopia's economy.

**Devoting more than half our loan book to medium and long-term loans:** More than 53 percent of our loans are devoted to medium- and long-term loans, a share that is higher than what is seen at most private or public banks. Through the delivery of such extended financing, the Bank is making its own small contribution to addressing the scarcity of long-term funds for Ethiopia's entrepreneurs.

**Maintaining low NPL ratios and strong risk control systems:** Zemen Bank is pleased to note that the rapid growth in our lending operations has been

P R E S T I G E  
B A N K I N G



achieved while simultaneously maintaining a low non-performing loan ratio of just 1.5 percent and a very high provision rate (including recoveries) of over 100 percent. Such prudent results are a result of our strict system of loan follow-up and monitoring and our rigorous use of modern risk management techniques, both of which will continue to safeguard the Bank's performance in the years ahead.

**Making our low-cost operations even lower:** An already low cost-to-income ratio of just 34 percent was reduced even further to just 28 percent in FY 2010/11, a remarkable result that continues to be a testament to the streamlined and efficient nature of our operations. Moreover, considering the cost-to-income ratios of near 50 percent seen at other banks and in most fast-growing financial institutions, this low-overhead cost base continues to provide us with a unique competitive advantage that can sustain our future profitability.

**Successfully meeting national obligations:** As a responsible corporate citizen, the Bank has duly made its contributions to policies introduced in the past year to mobilize fiscal revenues and to fund the new five-year Growth and Transformation Plan. More specifically, we fully met our obligations towards a new NBE Bill purchase program aimed at financing priority national projects by providing, as of June 2011, Birr 216 million in funds to Government via NBE Bill purchases. In addition, we promptly settled a 75 percent windfall tax levied on exceptional foreign exchange gains following the September 2010 devaluation, paying a sum of Birr 43 million. We of course continue to be a large corporate taxpayer, with a further Birr 36 million in profit taxes being paid this year.

**Embracing Ethiopia's financial inclusion agenda by using our technological strengths:** Although Zemen Bank's operations are based mainly on a single branch operation, we are fully in support of the national financial inclusion agenda of broadening financial services to the vast majority of the country's unbanked population. We believe our distinctive strength in this area is the ability to provide a world-class technological platform that can be deployed to deliver cutting-edge

financial products and services, one example of which is our planned introduction of mobile banking. To this end, and supported by several path-breaking partnerships, we are in the final testing phase of a major mobile banking service launch that—pending regulatory approval—will be available not just to Zemen Bank customers but also to all mobile users in Ethiopia. The first phase of this mobile service launch will deliver benefits to customers that include simpler, faster, and cheaper means of making domestic money transfers.

In short, we are pleased to say that through the combined efforts of the Board, Management and the staff, Zemen Bank has in the past year been able to deliver exceptional value to both our customers and shareholders without deviating from prudent commercial banking practices, without requiring a high overhead cost-base, and without sacrificing important national and developmental priorities.

Looking ahead, and capitalizing on our past successes, we remain driven to widening the range of innovative financial products in the Ethiopian marketplace, to continuous improvements in our service delivery, and to keeping abreast with the latest technological advances in the global banking industry. Through all this, Zemen Bank will strive to play a pivotal role in the expansion, inclusiveness, and modernization of the financial sector in Ethiopia.

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

Dr. Berhane Ghebray



Chairman of the Board  
Zemen Bank

## 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.

# SHAREHOLDERS' MEETING (October 2, 2010)



## Z-Club

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

# DIRECTORS' REPORT

Year ended 30 June 2011

The Board of Directors is pleased to present the 2010/11 Annual Report of Zemen Bank to its esteemed shareholders, clients, and partners. In line with the Bank's ambitious vision, our third year of operations has been one of significant growth, innovation, and profitability. Although the Bank faced several internal and external challenges during the course of the year, these were successfully overcome and resolved without negatively impacting our financial or operational performance. 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 its third year of operations by doubling what was an already remarkable profit performance achieved in its second year. For the fiscal year ending in June 2011, the Bank's gross profits climbed to Birr 121.1 million, reflecting gross revenue of Birr 217.6 million that was offset by Birr 96.5 million in expenses. After accounting for taxes, the Bank registered a net profit of Birr 84.7 million, also a doubling from the previous year's result of Birr 41.9 million.

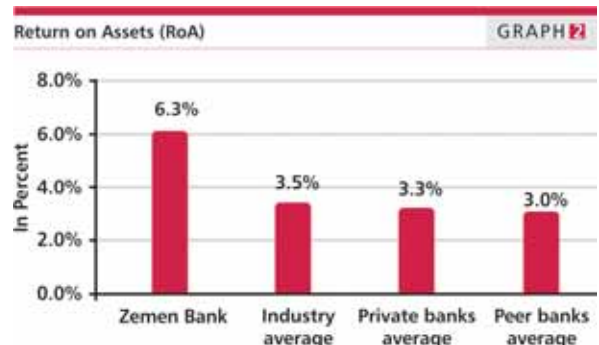
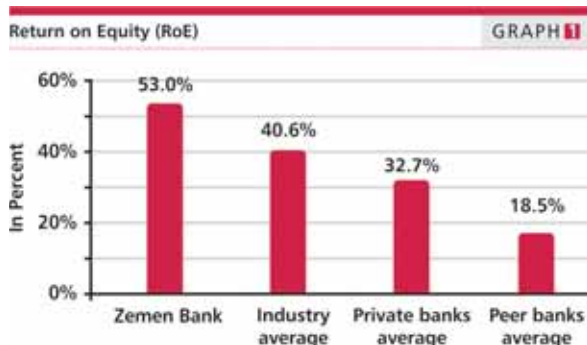
The profit recorded by Zemen Bank in FY 2010-11 is exceptional in many respects, particularly when seen against its paid-up capital and asset base as well as in comparison to the performance of its peer banks.

## Return on Equity and Return on Assets

The Bank's after-tax net income of Birr 84.7 million translates into a return on average equity of 53 percent and a return on average assets of 6.3 percent. The net income result is also equivalent to an earnings per share of 58.1 percent. By way of comparison, as of June 2011, the average return on equity in the Ethiopian banking sector was 40.6 percent while the average return on assets was 3.3 percent; the corresponding figures for our peer bank group were even lower.

## Peer Comparison

Out of Ethiopia's 13 private banks as of June 2011, Zemen Bank is part of a peer group of seven banks formed within the last five years (the other six banks have all been in operation for more than a decade).



INTERNATIONAL  
BANKING





Based on information available on the (unaudited) profit results of our peer group, Zemen Bank is pleased to note that our gross profit performance of Birr 121 million has been more than double the average for our peers and more than 80 percent higher than the results of the bank with the second-highest profits within our peer group.

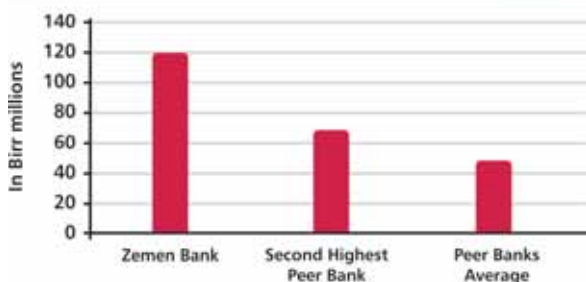
With respect to the Bank’s payout to shareholders, the Board of Directors propose an amount of Birr 56.8 million in dividends this year. The proposed dividend payout reflects three deductions to the net income outturn of Birr 84.7 million on account of Legal Reserves (Birr 21.2 million), Allocation for Promoters (Birr 6.3 million), and Directors profit-share (Birr 0.4 million). The proposed Birr 56.8 million to be paid out to shareholders translates into a dividend rate of return of 39 percent given the year-average paid-up capital base of Birr 146 million.

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

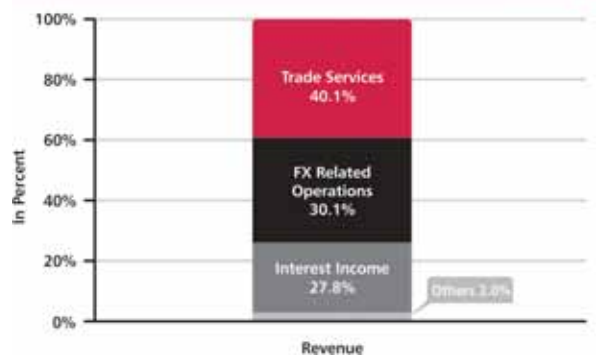
## Revenues

The Bank collected gross revenue (excluding interest expenses and provisions) of Birr 217.6 million during the year, a 62 percent increase from the previous fiscal year. The largest revenue items, in order of importance, arose from service fees charged on trade operations (Birr 87.4 million or 40 percent of total revenue), gains from foreign exchange related operations (Birr 65.6 million or 30 percent), and interest income from loans (Birr 60.6 million or 28 percent). A distinctive feature of our income structure is the limited reliance on interest income; indeed, based on data from FY 2009/10, Zemen Bank’s share of interest income to total income was the lowest in the Ethiopian banking industry. Given restrictions on lending that were in place for most of the year, the Bank’s structure of revenues has turned out to be beneficial for the prevailing macroeconomic environment.

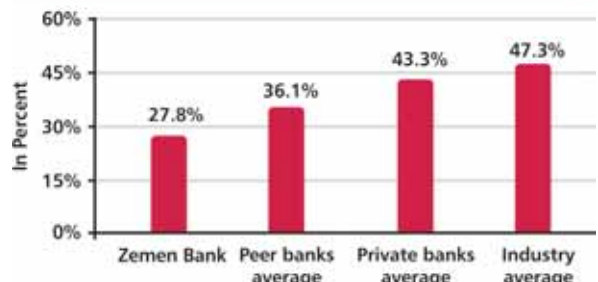
Gross Profit of Zemen and Its Peers GRAPH 4



Revenue Structure GRAPH 5



Share of Interest Income to Total Income GRAPH 6



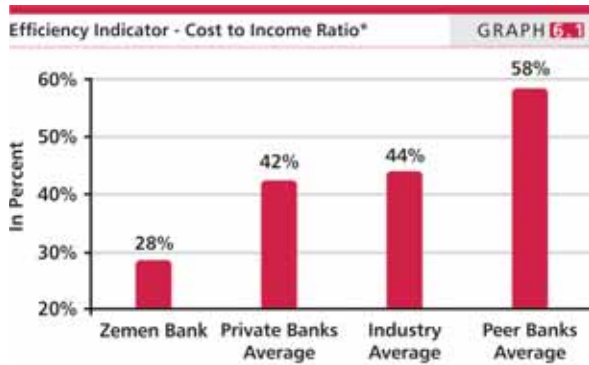
## International Banking

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

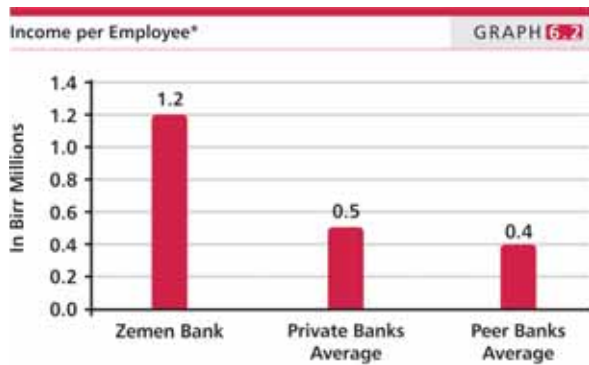
- Import and Export letters of credit
- International wires and transfers
- Foreign cash and check-related services
- Dollar/Euro accounts to eligible savers
- Remittance services to send/receive funds

### Expenditure

The Bank's total spending of Birr 96.5 million was dominated by expenses for interest payments (Birr 41.1 million), general and administrative items (Birr 15.8 million), salaries and benefits (Birr 15.6 million), depreciation and amortization (Birr 12.3 million) and rent (Birr 5.6 million). While high depreciation and amortization charges are recorded on account of substantial spending on computer software and equipment, the Bank also benefits from considerable savings linked to its distinctive business model of relying on a single Branch. This unique business model reduces on costs for branch expansion and associated staff expenses. Indeed, our cost-to-income ratio (which compares operating costs to operating income and is a key



\*Non-Interest Expenses to Total Operating Income

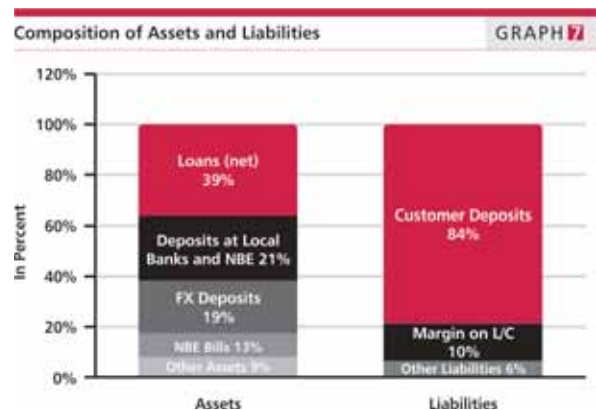


\*The number of employee is based on latest available data of FY 2009/10

measure of efficiency used in the banking sector) fell from an already low level of 34 percent to just 28 percent for FY 2010/11, among the lowest in the Ethiopian banking industry. This cost advantage remains a major competitive edge of Zemen Bank and an important driver of our present and future profitability.

### Balance Sheet

The Bank's balance sheet expanded by 45 percent during the year, rising from Birr 1.1 to 1.6 billion. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits (Birr 1.16 billion), shareholder funds (Birr 240.7 million), and various miscellaneous liabilities (Birr 117.9 million). The counterpart to these funds collected from customers and shareholders are four main assets: loans and advances after provisions (Birr 633 million); deposits at local banks and NBE (Birr 346 million); foreign exchange deposits (Birr 303 million) and NBE Bills (Birr 216 million). The Bank continues to have a strong capital base, with a capital adequacy ratio of 17 percent of risk-weighted assets, or more than double the regulatory minimum of 8 percent. Moreover, in line with our prudent banking practices, the Bank's liquidity ratio (liquid assets to total deposits) was well above regulatory requirements throughout the year and stood at 60 percent at end-June 2011.



MORTGAGE  
LOANS

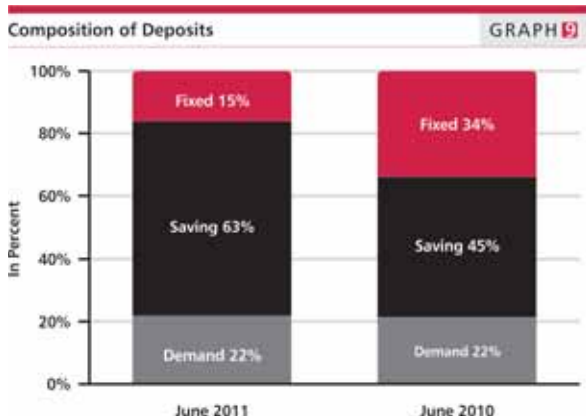
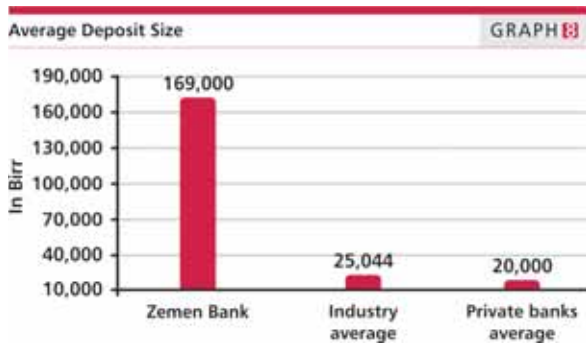


## Banking Operations

The financial profitability recorded above has been realized through rapid growth in the three key areas of commercial banking operations—collecting deposits, providing loans, and securing the foreign exchange funds needed to facilitate trade related services.

### Deposits

Zemen Bank boosted its deposit base by close to 70 percent in its third year, with total deposits mobilized reaching Birr 1.162 billion at end-June 2011 from a level of just Birr 688 million a year earlier. The average size of a deposit at Zemen Bank (approximately Birr 170,000) continues to be substantially higher than the norm at other private banks, in line with our distinctive business model. The composition of deposits has once again moved in line with the Bank's longer-term objectives: long-

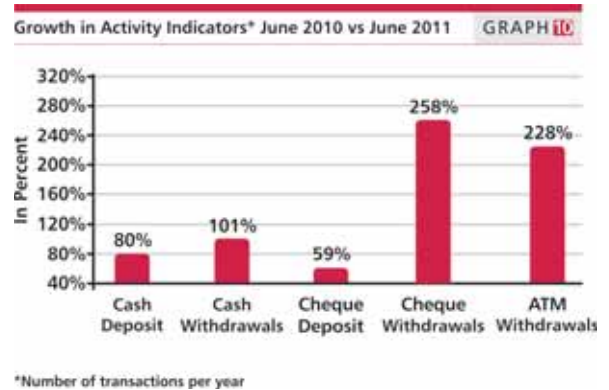


term deposits in the form of CDs are now just 15 percent of deposits (versus 34 percent a year earlier and 50 percent two years ago), while the share of savings deposits and checking deposits are up to 63 percent and 22 percent respectively (from 45 and 22 percent shares a year earlier). This shift in the composition of deposits has reduced the Bank's interest cost, while the still significant share of long-term deposits enables the Bank to offer longer-term loans to its customers.

### Branch and Account Services

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

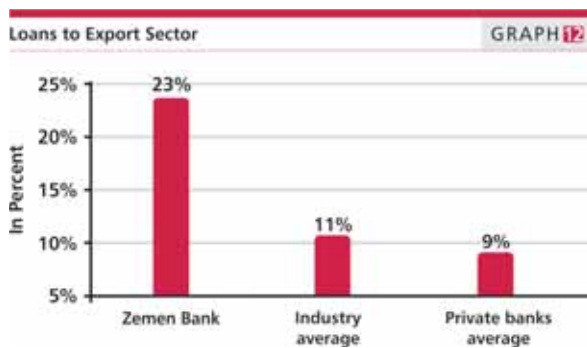
- Our Main Branch has shown substantial growth in all areas of its operations, driven in part by the doubling of total deposit accounts at the Bank last year. The Bank registered 80 percent growth in cash deposit transactions, 101 percent growth in cash withdrawal transactions, and 258 percent growth in check-related transactions.
- Our Kiosk network has expanded to four locations and includes banking kiosks providing services to dedicated corporate customers (e.g., Embassy of Sweden, Sher Ethiopia PLC) as well as those serving the broader public (e.g. at the Main Post Office and Wabe Shebelle Hotel).



## 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 20 percent of the cost of the homes.

- Our ATMs are being used on average around 200 times every single day. On a monthly basis, our ATM network is utilized by more than 6,000 customers making Birr 8 million in cash withdrawals per month.
- Our Internet facilities are utilized approximately 80 times every day, or about 2400 times per month, providing a very convenient channel to our corporate and personal clients.
- Over 10,000 employees are beneficiaries of our corporate payroll services, ranging from field workers at several large commercial farms to the staffs of embassies and international organizations within Addis Ababa.



## Credit

The Bank's total lending (net of provisions) has jumped to Birr 633.7 million in June 2011 from Birr 377.9 million a year earlier. The outstanding loan stock was held just below the NBE's lending cap for Zemen Bank that was effective for most of the year until April 2011. The loan-to-deposit ratio was 56 percent at year-end, near its level of a year earlier. However, considering the Bank's purchase of NBE Bills, as per central bank directives, the ratio of loans and bills to deposits reached 74 percent in June 2011. Various loan activity indicators showed strong growth: the number of loans rose from 215 to 517 and monthly interest income doubled from around Birr 3 million in June 2010 to near Birr 6 million in June 2011. The share of non-performing loans to total loans has been kept at a low level of just 1.5 percent through rigorous credit follow-up and monitoring procedures. Regarding the composition of loans, export related loans continue to show the highest share (23.4%), followed by loans for Industry (17.3%), Domestic Trade & Services (14.6%), and Building & Construction (11.6%), and Imports (10.3%). Among private banks, Zemen Bank continues to have among the highest share of its loans devoted to the export sector, a desirable sector structure for loans given the sizeable foreign exchange income earned from export sector borrowers. Moreover, the Bank continues to take pride in devoting high shares of its loans to sectors accorded high national priority such as exports, industry, and tourism.

## International Banking

International banking services continued to be the dominant source of the bank's income, thanks to \$146 million in foreign exchange inflows collected by the Bank during the past year. Foreign exchange inflows averaged close to \$12 million per month, a growth rate of 50 percent from the prior fiscal year. Since the country's export growth was 39 percent for FY 2010/11, the 56 percent growth rate registered by Zemen Bank indicates a rise in our market share. We estimate that Zemen Bank is now capturing foreign exchange inflows that

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



are equivalent to near 10 percent of the country's exports channeled through private banks (of the country's USD 2.8 billion in total exports last fiscal year, USD 1.4 billion was channeled via the state-owned banks based on press reports of their year-end performance). In terms of activity levels, the International Banking Department now processes close to 400 export and import transactions per month and completed a total of about 4,500 transactions during the course of the year. The Bank has expanded its correspondent banking and RMA relations with 65 banks covering 29 countries, including links with global financial institutions such as Citibank, Commerzbank, and JP Morgan Chase.

### **Human Resources, Administration, and Control**

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 151 to 191 during the fiscal year, with a continued focus placed on recruiting the most talented and experienced professionals available in the market. A large part of the staff increase reflected the discontinuation of outsourced activities in Information Technology (where the Bank now has a fully in-house IT Department) and Security Services. Training of staff has also been strengthened and given special attention, with 8 staff receiving training abroad and 17 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.

### **Risk Management**

A fully separate Risk Management Department with its own Department Manager was fully operationalised during the fiscal year to lead the Bank's work on risk identification, control, and mitigation. The Department comprehensively covers all risk components including credit risk, liquidity risk, market risk, operational risk, and strategic risk.

Regular quarterly assessments undertaken this past year include, among other things, 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 is also supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Sub-Committee.

### **Technology-based banking**

Zemen Bank continued its efforts this past year to become Ethiopia's pre-eminent technology-based bank. We continue to be the only Bank in Ethiopia that offers both ATM and Internet Banking services for its customers' convenience. Our work in expanding the use of technology-based banking this year has included a number of new initiatives as well as an expansion of activities begun in our last year.

### **Successful Core Banking System Deployment**

The Flexcube core banking software of Oracle Financial Solutions Services, a highly reputed provider of banking solutions that is operational in more than 100 countries and 250 financial institutions worldwide, was successfully deployed this past fiscal year. As noted in our report last year, the complex task of deploying the main retail module of the system was completed in a period of just two months and accomplished by Zemen Bank's own IT staff, allowing for a savings of some Birr 3.5 million had this been implemented by the software supplier. With the full deployment of the software at the retail/branch level, further work (now near completion) was undertaken in extending the software solution to our International Banking and Credit Departments.

### **Entry to the Ethiopian Automated Transfer System**

With the launch of a new National Payments System, the Ethiopian banking sector is transitioning to a

### **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

modern and real-time system of transferring funds among banks instead of the manual and heavily paper-based system of the past. In this connection, Zemen Bank worked closely with the central bank to assist the technical team that has established the new payment system. Given the advanced state of our core banking deployment, we are also now one of only two banks in the country (from Ethiopia's 17 commercial banks) that have Straight-Through Processing connectivity with the Automated Transfer System of the National Bank of Ethiopia. This means that our customer fund transfers to/from other banks are handled with the utmost speed and convenience thanks to a direct link between our core banking system and the central bank's Automated Transfer System.

### ATMs

The Bank's rollout of its ATM network has continued this past year and a total of 15 ATMs are currently deployed. With a further 10 ATMs being purchased shortly, a total of 25 ATMs will be functional by end 2011. 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 80 ATMs at locations throughout Addis Ababa and several other cities.

### Internet Banking

Zemen Bank's internet banking facility continues to provide a special level of convenience to both personal and business clients who need to regularly access and monitor their transactions. The Internet Banking service now provides customers the ease of being able to make transfers to other accountholders online—the first ever such service in Ethiopia.

Other improvements to the Internet Banking service completed this past year include the start of a Corporate Payroll Facility, which allows companies to make use of a payroll payment feature whereby monthly salary deductions are effected online from a company's account and automatically credited to its designated employee accounts.

### Pre-paid cash cards and gift cards

With various preparations completed in the last fiscal year, Zemen Bank will in October 2011 make available pre-paid cash cards to its customers. The cards are similar to debit cards, but rather than being linked to a Zemen Bank account they are instead pre-loaded with a given amount of funds that can then be drawn down by the card-holder at ATMs and/or POS terminals. Their usage can be for both consumer use (as gifts for example) or for business purposes (as expense cards used by employees).

### Outlook for the year ahead

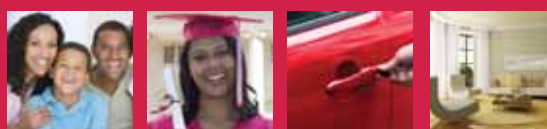
In the year ahead, the Bank will continue to expand the full range of commercial banking services it has been offering since its establishment, be it accepting deposits, providing loans, or offering international banking services linked to export and import activities. In addition, we will further expand our roll-out of ATMs, POS terminals, and Kiosks while also widening our offering of remittance and payroll services to a much larger base of customers than was the case so far.

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

### Capital Increase

To support the Bank's fast-growing operations, the Board of Directors will propose an increase in the Bank's capital base at the Annual General Meeting of Shareholders in September 2011. This increase will allow the Bank to provide a larger volume of loans (include larger loan amounts to any single borrower) and will also give us greater flexibility

PERSONAL  
LOANS



in our foreign exchange operations. Existing shareholders will be given the opportunity to contribute towards the capital increase.

### **Competitive savings rate**

Zemen Bank will continue to offer the most competitive savings rate in the industry with its 5.5 percent minimum deposit rate on all accounts above Birr 25,000. The Bank offers even better rates for customers that place higher value deposits at the Bank: 5.6 percent for Prestige Banking savings accounts and 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.

### **Selection of Headquarters Design**

In recognition of the Bank's long-term business needs, the Bank has determined the need for building its own Headquarters building to support its future growth and expansion. In this regard, Zemen Bank is finalizing the lease arrangements for a plot of land in the middle of what is expected to become the city's financial district. An architectural design submission competition was launched during the past year and the selection of a building design is expected to be completed in December 2011 with the commissioning of a consultant/contractor to be undertaken in 2012.

### **Mobile banking**

Zemen Bank is actively working on introducing mobile banking to the Ethiopian market, potentially providing customers with the ability to send/receive funds via their mobile phones. A careful process of selecting our technology partners was completed during the fiscal year and user acceptance testing of the mobile banking solution is currently being undertaken. We also have reached path-breaking partnerships with prospective mobile banking agents that, once regulatory consent is received, will allow the bank to deliver (in phase one) a money transfer service that is not only widely available to

all mobile users but that is also cheaper, simpler, and faster than existing alternatives.

### **VISA International Entry**

Despite a longer-than-expected time that it has taken due to various technical factors, Zemen Bank is expected to enter the VISA International network by October 2011. Besides broadening the Bank's sources of foreign exchange and income, our entry into the VISA network will mean that owners of VISA-branded cards issued anywhere in the world will enjoy the convenience of having access to local currency funds at all our ATMs.

### **Collaborative work with USAID to Encourage the Agriculture and Leasing Sectors**

Through a USAID initiative undertaken with selected Ethiopian banks, Zemen Bank will be participating in an innovative guarantee facility that is intended to promote agricultural sector growth by providing a means for farmers to lease a wide range of agricultural equipment ranging from tractors and harvesters to simpler agricultural tools. The credit that the Bank will provide under this facility is expected to assist both small and large farms whose operations can be significantly expanded and modernized by deploying specialized agricultural equipment.

In conclusion, Zemen Bank has continued to cross several impressive milestones with respect to its financial results, deposit mobilization, loan provision, and foreign exchange performance. With many new initiatives planned for the new fiscal year, these operational and financial achievements are to be deepened even further, all with the aim of providing exceptional banking services to our clients while also delivering satisfactory profits and dividends to our shareholders.

The Board of Directors

1 September 2011

### **Personal Loans**

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

# CUSTOMER SNAPHOTS



**KARUTURI**

GLOBAL PRESENCE. GLOBAL SUCCESS

A global agri-business powerhouse



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Winery Plc.

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**CASTEL WINERY**

Ethiopia's largest wine producer



Ethiopia's biggest flower exporter



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**Sheger Meter Taxi**  
*Expand your option to the best comfort!*

The first metered taxi service in Ethiopia



**MARATHON MOTORS**  
Hyundai's exclusive dealer



A developer of quality homes



The first low-cost airline serving Ethiopia

**SHAG**

Import Export Enterprise

A leading exporter of sheep and camels

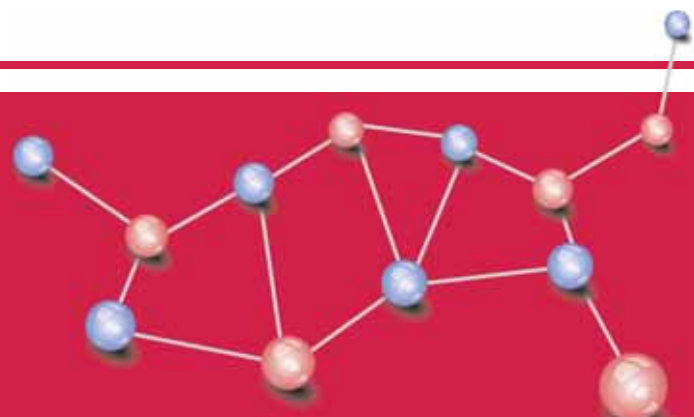


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An exporter of fruits and vegetables to UK supermarkets



**ETHIOPIA POSTAL SERVICE ENTERPRISE**  
A fast growing national institution

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# 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 statement of Zemen Bank Share Company (hereinafter referred to as the Bank) for the year ended June 30, 2011, set out on pages 26 to 37, 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, implementation and maintaining internal control relevant to the preparation and fair presentation of financial statements are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our reasonability 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 misstatements.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures with the financial statements. The procedures selected depend on our judgment, including the

assessment of the risks of material misstatements 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 the 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 present fairly the financial position of the Bank as at June 30, 2011 and its profit and cash flow for the year then ended.

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


  
GETACHEW KASSAYE & CO.  
CHARTERED CERTIFIED ACCOUNTANTS  
Addis Ababa  
September 6, 2011



ZEMEN BANK S.C.  
**BALANCE SHEET**

AS AT 30 JUNE 2011  
 In Ethiopian Birr

<b>ASSETS</b>		June 30, 2011	June 30, 2010
Cash and balances with other banks			
Cash on hand	4	57,611,699	23,670,641
Deposits with local commercial banks		5,078,476	5,708,308
Deposits with foreign banks		303,297,417	303,555,392
Deposits with National Bank of Ethiopia	5	341,036,530	278,207,561
		<u>707,024,122</u>	<u>611,141,902</u>
Items in course of collection from other banks	6	4,888,494	14,502,817
Loans and advances to customers	7	633,735,915	377,920,104
NBE Bills		216,483,887	-
Other assets	8	12,947,472	18,394,934
Fixed assets	3.1,9	22,832,809	20,785,007
Intangible assets	3.2,10	15,999,752	12,878,029
		<u>1,613,912,451</u>	<u>1,055,622,793</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES</b>			
Customers' deposits			
Demand		256,640,992	148,371,595
Saving		731,761,013	308,857,682
Fixed		174,157,423	230,795,386
		<u>1,162,559,428</u>	<u>688,024,663</u>
Margin held on letters of credit		56,281,580	130,399,128
Other liabilities	11	117,938,639	60,461,114
Provision for taxation	18	36,423,326	18,144,206
		<u>1,373,202,973</u>	<u>897,029,111</u>
<b>TOTAL LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	12	149,576,000	120,575,976
Share Premium		425,000	-
Legal reserve		33,925,538	12,748,215
Retained earnings		56,782,940	25,269,491
		<u>240,709,478</u>	<u>158,593,682</u>
<b>TOTAL CAPITAL AND RESERVES</b>			
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<u>1,613,912,451</u>	<u>1,055,622,793</u>

  
 Dr. Berhane Ghebray  
 Board Chairman

  
 Helaway Tadesse  
 Acting President

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 2011  
 In Ethiopian Birr

<b>INCOME</b>	Notes	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Interest Income	3.3	60,638,462	31,240,880
Less: Interest expense	3.3	(41,063,046)	(22,815,510)
Net interest income		<u>19,575,416</u>	<u>8,425,370</u>
Less: Provision for doubtful loans and advances		<u>(5,494,767)</u>	<u>(4,022,195)</u>
		14,080,649	4,403,175
Service charge	13	87,354,894	51,876,710
Commissions		849,967	513,658
Net gain on foreign exchange dealings and fluctuations		65,648,552	47,331,338
Other income	3.5,14	<u>3,183,735</u>	<u>3,041,712</u>
		157,037,148	102,763,418
<b>EXPENSES</b>			
Salaries and benefits	15	15,582,974	9,398,589
Rent		5,614,804	5,126,117
Depreciation and amortization		12,250,631	8,676,344
General and administrative	16	15,842,977	11,641,435
Loss and disposal of software		200,991	2,187,816
Directors' monthly allowances		230,101	861,125
Audit fee		112,700	138,100
Special audit fee		<u>150,000</u>	<u>-</u>
		<u>49,985,178</u>	<u>38,029,526</u>
<b>PROFIT FOR THE YEAR</b>		121,132,619	69,137,067
Loss brought forward		<u>-</u>	<u>(9,141,926)</u>
<b>PROFIT BEFORE TAXATION</b>		121,132,619	59,995,141
Provision for taxation	18	<u>(36,423,326)</u>	<u>(18,144,206)</u>
<b>PROFIT AFTER TAXATION</b>		84,709,293	41,850,935
Transfer to Legal Reserve		<u>(21,177,323)</u>	<u>(12,748,215)</u>
<b>NET PROFIT AFTER TAX AND LEGAL RESERVE</b>		63,531,970	29,102,720
Allocation for Promoters	19	(6,353,197)	(2,910,272)
Board of Directors' remuneration	20	<u>(395,833)</u>	<u>(922,957)</u>
Transfer to retained earnings		<u>56,782,940</u>	<u>25,269,491</u>
Earnings per share	21	<u>581 (58.1%)</u>	<u>387 (38.7%)</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 2011  
 In Ethiopian Birr

<b>INCOME</b>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>Cash Flow from Operating Activities</b>		
Profit before tax	121,132,619	69,137,067
Depreciation and amortization	12,250,631	8,676,344
Interest income from foreign deposits	-	(114,340)
	<b>133,383,250</b>	<b>77,699,071</b>
Decrease (Increase) in items in course of collection	9,614,323	(9,649,120)
Decrease (Increase) in other assets	5,447,462	536,882
(Increase) in loans and advances to customers	(255,815,811)	(191,160,301)
Increase in demand deposits	108,269,397	107,835,139
Increase in saving deposits	422,903,331	212,204,496
Increase in fixed deposits	(56,637,963)	90,137,232
Increase in margin held on letters of credit	(74,117,548)	57,708,956
Increase in other liabilities excluding promoters' and directors' share in profit	50,728,495	35,082,919
Income tax Paid	(18,144,206)	-
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	<b>325,630,730</b>	<b>380,395,274</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed assets	(8,517,320)	(6,299,796)
Investment in intangible assets	(8,902,836)	(5,379,160)
NBE bills purchased	(216,483,887)	-
Interest income received on foreign deposits	-	114,340
<b>Net cash received from (used in) investing activities</b>	<b>(233,904,043)</b>	<b>(11,564,616)</b>
<b>Cash Flow from Financing Activities</b>		
Proceeds from issue of share capital	29,000,024	20,918,301
Share premium collected	425,000	-
Dividend Paid	(25,269,491)	-
<b>Net cash received from (used in) financing activities</b>	<b>4,155,533</b>	<b>20,918,301</b>
<b>Net Increase in Cash For the Year</b>	<b>95,882,220</b>	<b>389,748,959</b>
<b>Cash Balance at the Beginning of the Year</b>	<b>611,141,902</b>	<b>221,392,943</b>
<b>Cash Balance at the End of the Year</b>	<b>707,024,122</b>	<b>611,141,902</b>

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 2011

In Ethiopian Birr

**1. BACKGROUND**

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

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

**2. BASIS OF PREPARATION**

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**3.1 Fixed assets**

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

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

**3.2 Intangible assets**

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

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

**3.3 Interest income and expenses**

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

**3.4 Bonus**

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

**3.5 Other income**

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

**3.6 Conversion of foreign currencies**

(i) Foreign currencies denominated transactions are converted into Birr at the prevailing rates of exchange and

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 2011

In Ethiopian Birr

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realized foreign exchange gains or losses are reflected in the profit and loss account.

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

### 3.7 Off-setting

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

### 3.8 Provisions for loans and advances

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

#### i Pass Loans

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

#### ii Special Mention

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

#### iii Substandard

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

#### iv Doubtful

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

#### v Losses

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

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

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

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

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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 2011

In Ethiopian Birr

<b>4. CASH ON HAND</b>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Local currency	51,665,258	18,908,847
Foreign currency	<u>5,946,441</u>	<u>4,761,794</u>
	<u>57,611,699</u>	<u>23,670,641</u>
<b>5. DEPOSITS WITH NATIONAL BANK OF ETHIOPIA</b>		
Statutory reserve balance	180,000,000	105,000,000
Payment and settlement account	<u>161,036,530</u>	<u>173,207,561</u>
	<u>341,036,530</u>	<u>278,207,561</u>
<b>6. ITEMS IN COURSE OF COLLECTION FROM OTHER BANKS</b>		
Outward bills purchased	1,402,321	4,901,530
Outward documentary bills purchased	486,173	9,601,287
Claim on Head Office and branch	<u>3,000,000</u>	<u>-</u>
	<u>4,888,494</u>	<u>14,502,817</u>
<b>7. LOANS AND ADVANCES TO CUSTOMERS</b>		
Agriculture	2,591,788	3,427,869
Manufacturing	112,020,490	52,186,805
Domestic trade and services	94,140,778	47,279,058
Transport and communication	58,027,981	13,912,179
Hotel and tourism	47,075,803	43,786,931
Export	150,876,757	139,205,378
Import	66,364,552	28,255,540
Building and construction	74,681,305	43,108,216
Personal	25,142,842	11,112,163
Others	14,304,354	1,641,933
Less: Provision for doubtful debts and advances	<u>(11,490,735)</u>	<u>(5,995,968)</u>
	<u>633,735,915</u>	<u>377,920,104</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 2011

In Ethiopian Birr

<b>8. OTHER ASSETS</b>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>Debtors</b>		
- interest receivables- NBE bills	1,158,242	-
- commission receivables	-	26,752
- withholding receivables	4,620	19,943
- Access Capital S.C.	4,704	83,460
- others	146,730	103,109
Less: Provision for doubtful debts other than loans	<u>(87,000)</u>	<u>-</u>
	<u>1,227,296</u>	<u>233,264</u>
<b>Prepayments</b>		
- office rent	148,487	3,427,490
- advance payments-Banking Software	9,189,799	8,327,284
- others	<u>415,300</u>	<u>1,086,832</u>
	<u>9,753,586</u>	<u>12,841,606</u>
<b>Supplies stock</b>		
-stationery	866,613	171,517
-check books	580,179	601,788
-uniforms	21,540	1,023,197
-furniture and fixtures in stock	101,605	162,726
-office and other equipment in stock	85,854	3,307,125
-Computer and accessories in stock	154,300	-
-sundry materials	<u>156,499</u>	<u>53,711</u>
	<u>1,966,590</u>	<u>5,320,064</u>
	<u><u>12,947,472</u></u>	<u><u>18,394,934</u></u>

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

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

FOR THE YEAR ENDED 30 JUNE 2011

In Ethiopian Birr

**9. FIXED ASSETS**

<b>Cost</b>	Balance 30.9.2010	Additions	Balance 30.6.2011
Computer hardware	12,212,261	4,535,772	16,748,033
Furniture and fixtures	7,588,061	1,746,322	9,334,383
Office and other equipment	2,618,719	1,586,050	4,204,769
Motor vehicles	<u>8,371,928</u>	<u>649,176</u>	<u>9,021,104</u>
	<u>30,790,969</u>	<u>8,517,320</u>	<u>39,308,289</u>
<b>Accumulated depreciation</b>			
Computer hardware	4,566,986	3,045,262	7,612,248
Furniture and fixtures	2,340,800	1,398,717	3,739,517
Office and other equipment	757,208	689,512	1,446,720
Motor vehicles	<u>2,340,968</u>	<u>1,336,027</u>	<u>3,676,995</u>
	<u>10,005,962</u>	<u>6,469,518</u>	<u>16,475,480</u>
<b>Net Book value</b>	<u>20,785,007</u>		<u>22,832,809</u>

**10. INTANGIBLE ASSETS**

	Balance 30.6.2010	Additions	Disposal	Balance 30.6.2011
<b>Cost</b>				
Computer software	7,717,403	9,103,827	(217,287)	16,603,943
Capitalized expenditure	8,379,290	-	-	8,379,290
SWIFT implementation cost	<u>577,968</u>	<u>-</u>	<u>-</u>	<u>577,968</u>
	<u>16,674,661</u>	<u>9,103,827</u>	<u>(217,287)</u>	<u>25,561,201</u>
<b>Accumulated Amortization</b>				
Computer software	661,592	3,989,662	(16,297)	4,634,957
Capitalized expenditure	2,932,751	1,675,858	-	4,608,609
SWIFT implementation cost	<u>202,289</u>	<u>115,594</u>	<u>-</u>	<u>317,883</u>
	<u>3,796,632</u>	<u>5,781,114</u>	<u>(16,297)</u>	<u>9,561,449</u>
<b>Net book value</b>	<u>12,878,029</u>		<u>200,990</u>	<u>15,999,752</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 2011

In Ethiopian Birr

**10.1** 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.

<b>11. OTHER LIABILITIES</b>	June 30, 2011	June 30, 2010
Dividend Payable	8,248,542	-
Tax payables	595,214	370,092
CPO payables	83,967,130	25,474,718
Exchange payable to NBE	4,470,763	2,865,816
Accruals	6,667,010	4,237,353
Allocation for Promoters	9,263,469	2,910,272
Directors' share of profit	395,833	922,957
Miscellaneous Payable	4,330,678	2,052,471
Other banks	-	21,627,435
	<u>117,938,639</u>	<u>60,461,114</u>
<b>12. SHARE CAPITAL</b>		
Subscribed	<u>149,576,000</u>	<u>149,576,000</u>
Paid-up	<u>149,576,000</u>	<u>120,575,976</u>
<b>13. SERVICE INCOME</b>		
Service charges - foreign	87,119,398	51,793,430
Service charges - local	<u>235,496</u>	<u>83,280</u>
	<u>87,354,894</u>	<u>51,876,710</u>
<b>14. OTHER INCOME</b>		
Loan processing fee	1,523,225	2,305,471
Overdraft protection fee	127,308	79,620
Balance maintenance fee	1,028,228	491,200
SWIFT charge	23,200	18,074
Documentation fee	-	1,463
Miscellaneous	<u>481,774</u>	<u>145,884</u>
	<u>3,183,735</u>	<u>3,041,712</u>

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

ZEMEN BANK S.C.  
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FOR THE YEAR ENDED 30 JUNE 2011

In Ethiopian Birr

<b>15. SALARIES AND BENEFITS</b>	June 30, 2011	June 30, 2010
Salaries	9,672,544	6,512,803
Representation allowances	454,245	377,456
Overtime	90,373	43,137
Transport allowances	702,399	501,314
Mobile telephone allowances	91,234	65,389
Provident fund	1,407,573	928,651
Staff insurance and medical expenses	347,988	206,758
Training and education	585,394	157,856
Laundry allowance	62,298	37,655
Uniforms	202,788	124,540
Housing allowance	212,427	169,815
Leave pay	335,916	273,215
Bonus	1,417,795	-
	<u>15,582,974</u>	<u>9,398,589</u>
<b>16. GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Security and janitorial services	180,645	461,121
Telephone, fax and internet	1,059,767	440,665
Stationery and printing	815,492	459,715
Advertisements	1,551,592	1,726,891
Annual License and registration fees	2,606,479	872,723
Maintenance and repair	581,335	253,085
Annual General Meeting	2,161,712	901,511
Utilities	218,102	190,301
ATM cards	49,968	138,299
IT service provider fee	1,526,386	3,465,454
SWIFT and correspondent charges	1,057,266	819,929
Commissions	80,487	502,133
Consultancy	12,500	184,554
Fuel and lubricants	575,757	347,622
Insurance	278,286	197,510
Membership and Subscriptions	930,147	87,752
Per-diem and travels	775,404	127,943
Provisions for doubtful debts other than loans	87,000	-
Entertainment	205,243	78,822
Donations	282,690	175,037
Sundries	806,719	210,368
	<u>15,842,977</u>	<u>11,641,435</u>

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#### 17. EMPLOYEE BENEFIT SCHEMES

The Bank has a provident fund scheme for all its permanent employees, for which the Bank contributes 15% of basic salary, and employees contribute 7%. All other employee benefits are in accordance with the Labor Proclamation No. 377/2003 and Amendment No. 494/2006.

#### 18. PROVISION FOR TAXATION

Profit (Loss) before tax	121,132,619
Add: Donations	282,690
Entertainment	205,243
Provision held for doubtful receivable	87,000
Less: Interest on local deposits	(3,591)
Interest on foreign deposits	( 351,451)
Taxable profit	<u>121,352,510</u>
Profit tax at 30%	<u>36,405,753</u>
Tax on interest of foreign deposits at 5%	<u>17,573</u>
Provision for taxation	<u><u>36,423,326</u></u>

#### 19. ALLOCATION FOR PROMOTERS

As stated on the prospectus, 10% of the net profit after tax and legal reserve has been allocated to Promoters.

#### 20. BOARD OF DIRECTORS' REMUNERATION

The Board of Directors remuneration for the year 2010/11 was computed as per the new directive issued by NBE. For the year 2009/10 the Board of Directors remuneration of 4% was calculated after the deduction of 25% legal reserve and 5% of the paid-up share capital.

#### 21. EARNINGS PER SHARE

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

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ZEMEN BANK S.C.  
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	June 30, 2011	June 30, 2010
<b>22. COMPARATIVE FIGURES</b>		
Comparative figures were taken from the audit undertaken by another firm of auditors.		
<b>23. CONTINGENT AND MEMORANDUM ITEMS</b>		
23.1 Guarantees issued to customers	<u>17,088,987</u>	<u>9,723,416</u>
23.2 Commitments		
- Letters of credit	232,252,537	179,105,132
Less: margins held on letters of credit	<u>(56,281,580)</u>	<u>(130,399,128)</u>
	<u>175,970,957</u>	<u>48,706,004</u>
- Inward bills for collection	<u>30,402,311</u>	<u>28,036,229</u>
- Overdrafts	<u>Nil</u>	<u>Nil</u>
- Loans	<u>58,879,763</u>	<u>72,291,667</u>
23.3 Accrued interest receivable on non-performing loans	<u>866,909</u>	<u>498,233</u>

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