



# ANNUAL REPORT 2010



Financial Solutions from A to Z  
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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!

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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.

### Zemen Bank is:

Proudly Ethiopian, professional, dynamic, world-class, inspirational 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



**Zemen BANK**  
Ermyas T. Amelga  
Board Chairman



**Zemen BANK**  
Tecele Alemneh  
Board Director



**Zemen BANK**  
Tameru Wondm Agegnehu  
Board Director



**Zemen BANK**  
Wubetu Workneh  
Board Director



**Zemen BANK**  
Dr. Tsegaye Habte  
Board Director



**Zemen BANK**  
Ermias Eshetu  
Board Director



**Zemen BANK**  
Eskinder Desta  
Board Director



**Zemen BANK**  
Dr. Desalegn Chalchisa  
Board Director



**Zemen BANK**  
Emebet Dejene  
Board Director

# SENIOR MANAGEMENT



**Zemen BANK**  
Brutawit Dawit  
President/CEO



**Zemen BANK**  
Tecele Alemneh  
Senior Advisor



**Zemen BANK**  
Helaway Tadesse  
Senior Vice President



**Zemen BANK**  
Ermias Eshetu  
V.P. Marketing



**Zemen BANK**  
Melaku Kebede  
V.P. Technology



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



**Zemen BANK**  
Milion Alemu  
Legal Counselor



**Zemen BANK**  
Solomon Mamo  
Finance Department Manager



**Zemen BANK**  
Firehiwot Birke  
Branch Manager



**Zemen BANK**  
Adugna Mekonnen  
H.R. & Support Services Manager



**Zemen BANK**  
Solomon Ketema  
Credit Department Manager



**Zemen BANK**  
Meseret Wondim  
Controller

## PERSONAL BANKING



### Personal Banking

As a Zemen Bank Personal Banking customer, you will earn an interest rate of 4.5% compared to the 4.0% 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 2010

It is with great pleasure that I introduce to you the second Annual Report of Zemen Bank and, more importantly, come to you with the message that Zemen Bank has delivered! We have delivered first and foremost to our shareholders by earning a second-year profit that is the best ever registered by any private bank in Ethiopia. We have delivered to our esteemed customers by bringing innovative banking products and services. And we have delivered on our primary corporate mission—to bring a new level of dynamism to the financial sector in Ethiopia—by showing that the banking industry can be shaken out of its past complacency through a focus on superior customer service, better banking products, and modern financial services.

As was the case last year, the environment for banking was challenging in some respects but we did start to see the beginnings of a more conducive domestic and external economic environment during the course of the year. Domestically, the central bank's tight monetary policy and bank-by-bank credit ceilings restrained the scope of our lending activities and thus limited our interest income. At the same time, however, other domestic economic conditions gradually became more favorable: economic growth continued its robust pace; inflation was reduced sharply and thus was more supportive of savings; foreign investment inflows were strong; and large adjustments in the exchange rate helped ease foreign exchange shortages. Supporting these domestic developments was a gradually improving global economy marked by especially strong growth in regions such as the Middle East, India, and China with which Ethiopia is deepening its economic links. With improving domestic macroeconomic conditions and strong external demand, Ethiopia's exports picked up sharply, growing by 38 percent

during the year and reaching a record level of \$2 billion. Zemen Bank was uniquely placed to take advantage of this jump in exports given both the dominant role of international banking services in our revenue base and the large share of our lending directed to the export sector.

With respect to our overall operations and financial results, the enclosed Board of Directors' Report presents a comprehensive summary, but I must highlight to our shareholders several areas in which the Zemen Bank record stands out:

**A Distinctive Model that works!** Zemen Bank entered the banking sector with a distinctive 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. This model had many doubters and critics from the very beginning. However, thanks to our 2800 shareholders who believed in our vision, we have not only shown that the model is workable within an Ethiopian setting but is actually one that promises to deliver superior results and profitability relative to traditional approaches.

**Best-ever second-year profits:** Zemen Bank's profit before tax of Birr 69 million is a remarkable accomplishment for a Bank with a capital base of Birr 108 million and in only its second year of operations. Indeed, we find that no other private bank has shown such a high profit at the same phase of its growth, and see this outcome as support for the aggressive growth trajectory planned in the years ahead.



**Exceptional success in attracting top exporters to the Bank:** Our distinctive model of catering to corporate clients and their specialized needs has brought us considerable success in attracting some of the country's top exporters to our Bank. We estimate that Zemen Bank has succeeded in securing close to 10 percent of the country's export inflows channelled through private banks. Attaining such a market share in just a short period of time is already remarkable in our view, but we believe it can be raised even further in the period ahead.

**Low-cost operations:** Zemen Bank has a unique competitive advantage in having banking operations that entail low costs and low overhead. Our cost-to-income ratio is only around 36 percent (compared to around 50 percent for most Ethiopian or foreign banks) and is a testament to the streamlined and efficient nature of our operations.

**Technology-based banking:** Zemen Bank is currently the only bank in the country to offer both ATM and Internet banking services. But this is only one small indication of our ambition to become Ethiopia's premier technologically-driven bank. We have many additional technology-based banking services being launched or soon to be introduced, all of which aim to provide greater convenience to customers, lower costs for financial transactions, and broader access to financial services.

**A Qualitative difference in service delivery:** Zemen Bank has emphasized from its beginning that our success should be measured not just in quantitative measures such as the number of branches or loans or deposits, but also by the qualitative improvements we would bring to the banking industry. To this end, we have continued to give utmost attention to the 'soft side' of the banking business, ensuring once again that our customers bank in comfort, with personalized service, and (as much as possible) with a minimum of delay.

**A respected brand name:** It should not normally be appropriate for me, as Board Chair, to indicate that our Bank has a respected brand name, but I cannot fail to mention to shareholders the very positive reputation that our young bank has been able to establish among the local business community, international investors, and the public at large. Our respected brand name is to be valued and preserved by all of us as shareholders and will continue to be something that propels our future growth and dynamism.

As much as we are proud of the many accomplishments above, I would like to reassure our shareholders, customers, and partners that this will in no way lead us to complacency during the period ahead. Indeed, we should all be reminded that when seen from a global perspective, the financial sector in Ethiopia still remains in the very early stages of development. There is plenty more to be done by Zemen Bank and many others (including new entrants) in terms of expanding financial access, widening the range of financial products, improving service delivery, and bringing technological advances. In line with our vision, Zemen Bank will strive to play a pivotal role in this process, aided by what we believe are distinctive strengths that can add value, dynamism, and innovation to the financial sector in Ethiopia.

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

Ermyas Amelga

Chairman of the Board  
Zemen Bank

PRESTIGE  
BANKING



## Prestige Banking

Prestige Banking Customers are allocated a Personal Banking Representative and earn 4.75% on their savings. To qualify, the minimum monthly balance is Birr 100,000.



# DIRECTORS' REPORT

Year ended 30 June 2010

The Board of Directors is pleased to present the second Annual Report of Zemen Bank to its esteemed shareholders, clients, and partners. True to our vision and as promised a year ago, the Bank's second year of operations has been one of significant growth, innovation, and profitability. In what follows, we present an overview of our banking operations and financial results during the just completed fiscal year and also outline our broad plans for the period ahead.



## Financial Performance

After a first year marked by substantial start-up costs that set the foundation for future growth, Zemen Bank has very quickly and decisively turned to profitability in its second year of operations. For the fiscal year ending in June 2010, the Bank recorded profit before tax of Birr 69.1 million. This profit reflects revenue of Birr 134 million earned by the Bank that was offset by Birr 65 million in expenses. After accounting for last year's carry-over loss of 9.1 million as well as tax payments of Birr 18.1 million, the Bank registered a net profit of Birr 41.9 million.

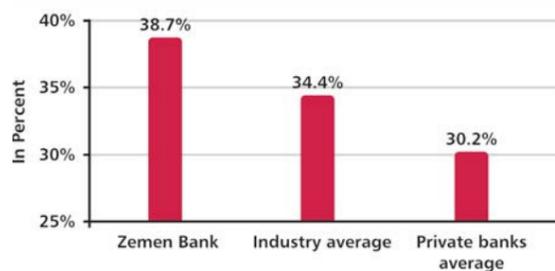
The profit recorded by Zemen Bank in FY 2009-10 is exceptional in many respects, particularly when seen against its paid-up capital and asset base and

also in comparison to the second year performance of other private banks.

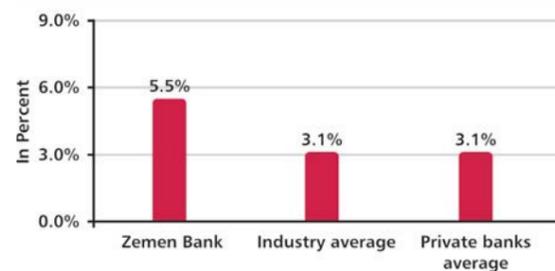
### Overall net income

The Bank's after-tax net income of Birr 41.9 million translates into a return on equity of 38.7 percent and a return on assets of near 5.5 percent. By way of comparison, as of December 2009, the average return on average equity in the Ethiopian banking sector was 34 percent while the average return on assets was 3.1 percent. Focusing only on the performance of FY 2009-10 (thus excluding the carryover loss from last year) would reveal a net income of 48 million (45 percent return on equity). The latter figure shows more clearly, in our view, the underlying strength of the Bank's profit achievements in the just completed fiscal year.

Return on Equity (RoE) GRAPH 1



Return on Assets (RoA) GRAPH 2



## Comparative Second-Year Performance

Zemen Bank's net income after tax of Birr 41.9 million is the highest ever recorded by an Ethiopian bank in just its second year of operation and roughly seven times the average second year net income recorded by other private banks. (The average second year net income profit at other private banks was 6 million while the highest ever second-year net profit attained so far was Birr 11.6 million). Even after accounting for inflation (since most of the other banks were established more than a decade ago), Zemen Bank's second year income is still almost three times larger than the average earned by other private banks.

This result demonstrates the Bank's solid financial beginnings and the much faster growth trajectory that is planned and possible for the years ahead. With respect to the Bank's payout to shareholders in the form of dividends, the Board of Directors propose an amount of Birr 25 million this year. The proposed dividend payout reflects three deductions to net income of Birr 41.9 million on account of Legal Reserves (Birr 12.7 million), Founders profit-share (Birr 2.9 million), and Directors profit-share (Birr 0.9 million). The proposed Birr 25 million to be paid out to shareholders translates into a dividend rate of return of close to 23 percent given the average paid-up capital base of Birr 108 million.

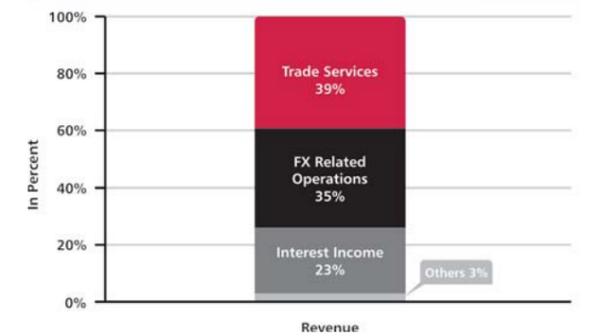
Zemen Bank's strong financial performance has been aided by several favorable elements in the structure of the Bank's revenue, expenditure, and

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.

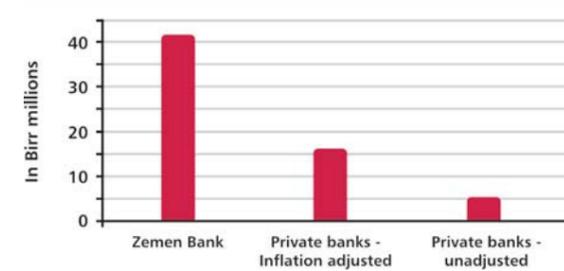
## Revenues

The Bank collected a gross revenue (excluding interest expenses and provisions) of Birr 134 million during the year, a more than five-fold jump from the annualized results of the previous fiscal year. The largest revenue items, in order of importance, arose from service fees charged on trade operations (Birr 52 million or 39 percent of total revenue), gains from foreign exchange related operations (Birr 47 million or 35 percent), and interest income from loans (Birr 31 million or 23 percent).

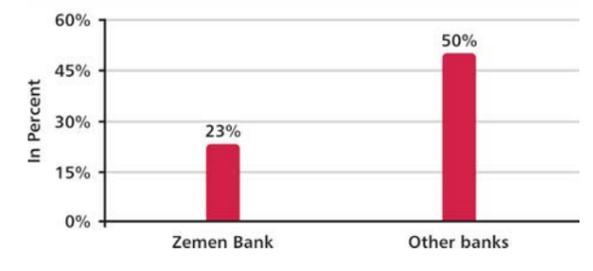
Revenue Structure GRAPH 4



Second Year Profit GRAPH 3



Share of Interest Income to Total Income GRAPH 5



## INTERNATIONAL BANKING



### International Banking

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

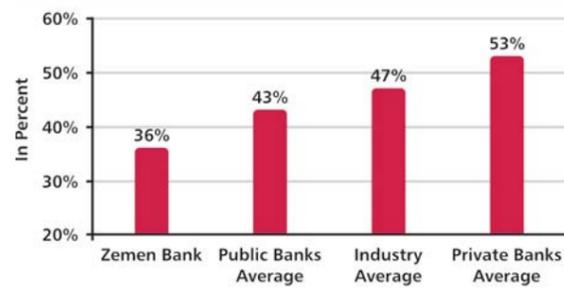
- Import and Export letters of credit
- International wires and transfers
- Foreign cash and check-related services
- Dollar/Euro accounts to eligible savers
- Remittance services to send/receive funds

A distinctive feature of our income structure is the limited reliance on interest income; indeed Zemen Bank's share of interest income to total income is the lowest in the Ethiopian banking industry. Given strong demand for credit, the Bank has considerable scope to increase the share of interest income to total income, but the present structure of our revenues is very favorable in the current macroeconomic environment of tight central bank lending restrictions.

**Expenditure**

The Bank's total spending of Birr 65 million was dominated by expenses for interest payments (Birr 22 million), general and administrative items (Birr 11 million), salaries and benefits (Birr 9.4 million), depreciation and amortization (Birr 8.7 million) and rent (Birr 5.1 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 net operating income and is a key measure of efficiency used in the banking sector) is among the lowest in the Ethiopian banking industry at just 36 percent. By comparison, the average cost-to-income ratio is

Efficiency Indicator - Cost - to Income Ratio\* GRAPH 6



\*Operating costs over net revenue

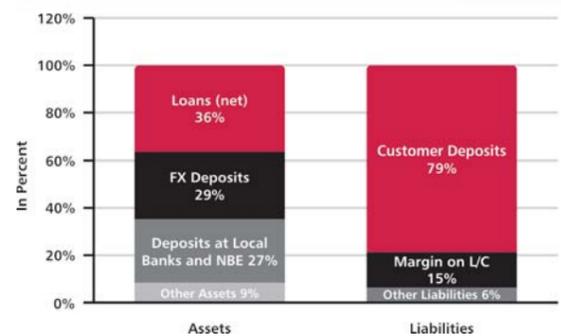
near 47 percent for the Ethiopian banking industry and 55-60 percent for African banking systems as a whole. This cost advantage is a major competitive edge of Zemen Bank and an important driver of our strong profitability.

**Balance Sheet**

The Bank's balance sheet for the first time exceeded Birr 1 billion towards the end of the fiscal year. The Birr 1 billion asset threshold was crossed in just the second year of Zemen Bank's operations, compared to the average of five years that it has taken other private banks. On the liability and capital side, the largest items on the Bank's balance sheet are customer deposits (Birr 688 million), advance customer deposits for L/C openings (Birr 130 million), and paid-up capital, which reached Birr 120 million by June 2010 from almost Birr 100 million a year earlier. The counterpart to these funds collected from customers and shareholders are three main assets: loans (Birr 383 million); deposits at foreign banks (Birr 303 million) and deposits at local banks and NBE (Birr 278 million).

With the level of loans limited by the NBE's lending cap, the Bank has very successfully built up its foreign exchange generating capacity (by attracting top exporters) and thus accumulating a large foreign asset base that is put to use in extending trade services such as letters of credits for importing clients.

Composition of Assets and Liabilities GRAPH 7



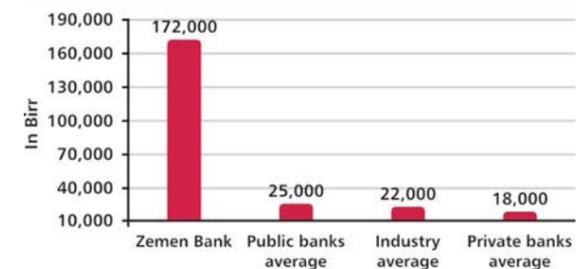
**Banking Operations**

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.

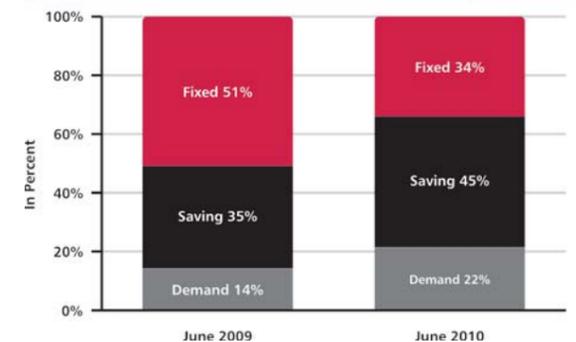
**Deposits**

Zemen Bank more than doubled its deposit base in its second year, with total deposits mobilized reaching Birr 688 million at end-June 2010 from a level of just Birr 278 million a year earlier. The average size of a deposit at Zemen Bank (roughly Birr 170,000) continues to be about ten times the norm at other private banks, in line with our distinctive business model. The composition of deposits has become much more favorable during the course of the year: long-term deposits in the form of CDs are now just 34 percent of deposits

Average Deposit Size GRAPH 8



Composition of Deposits GRAPH 9



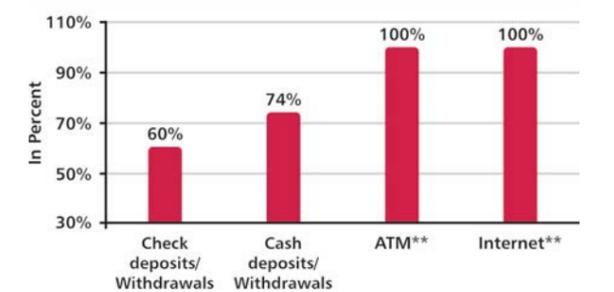
(versus nearly 50 percent a year earlier), while the share of savings deposits and checking deposits are up to 45 percent and 21 percent respectively (from 35 and 15 percent shares a year earlier). This shift in the composition of deposits has reduced the Bank's interest cost, while the still sizeable share of long-term deposits (which remains among the highest in the industry) enables the Bank to offer longer-term loans to its customers.

**Branch**

Activity indicators at Zemen Bank have grown substantially over the past fiscal year. Total accounts at the Bank rose to above 4,000 by June 2010 (versus 1,747 in June 2009) and have risen even further in the first few months of the new fiscal year. Reflecting the increasing number of accounts, transaction levels at the Bank are rising at a very fast pace both for cash and check based transactions (total transactions at the Branch are now averaging 350 per day). Similarly, the use of our ATM and Internet facilities is growing rapidly, with ATM withdrawals averaging about 60 per day (with a daily value of near Birr 100,000) and Internet banking usage reaching 33 per day.

Our Branch is also offering an increasingly popular payroll service whereby company payrolls are handled by the Bank through electronic credits to the employees' bank accounts which can subsequently be withdrawn by the employees via debit cards provided to them by Zemen Bank.

Growth in Activity Indicators\* June 2009 vs June 2010 GRAPH 10



\*Number of transactions per day  
\*\*ATM and Internet data is October 2009 vs June 2010

**MORTGAGE  
LOANS**



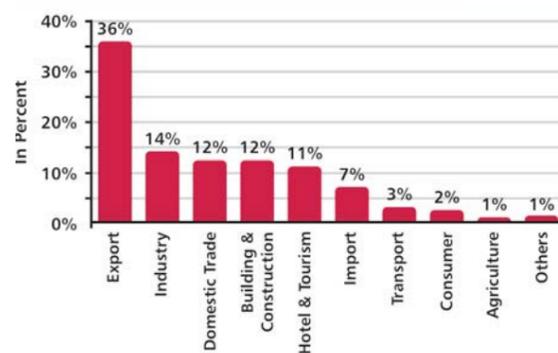
**Mortgage Loans**

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.

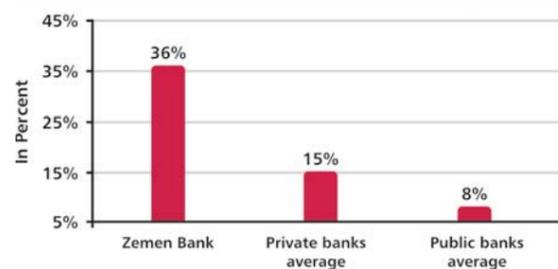
**Credit**

The Bank's loan stock has doubled to Birr 384 million in June 2010 from Birr 189 million a year earlier. The outstanding loan stock is just below the NBE's lending cap for Zemen Bank. The loan-to-deposit ratio was 56 percent at year-end, a drop from 68 percent a year earlier given the fact that the Bank expanded its deposits but was still constrained by the credit cap. Various loan activity indicators showed strong growth: the number of loans rose from 138 to 257 and monthly interest income doubled from just Birr 1.5 million in July 2009 to Birr 3.1 million in June 2010. The share of non-performing loans to total loans has been kept at a low level through strict credit monitoring procedures and also aided by the establishment of a Risk and Portfolio Management Department. Regarding the composition of loans, export related loans continue to show the highest share (36%),

Loan Book Composition GRAPH 11



Loans to Export Sector GRAPH 12



followed by loans for Industry (14%), Domestic Trade (12%), Building and Construction (12%), Hotel and Tourism (11%), and Imports (7%). The Bank continues to have the highest share of loans devoted to the export sector compared to any other bank in Ethiopia, a desirable sector structure for loans given the sizeable foreign exchange income earned from export sector borrowers.

**International Banking**

International banking services continued to be the dominant source of the bank's income, thanks to \$94 million in foreign exchange inflows collected by the Bank during the past year. Foreign exchange inflows averaged close to \$8 million per month, more than triple their monthly level in the prior fiscal year. We estimate that Zemen Bank has captured close to 10 percent of the country's export inflows that are not being channeled through the dominant state-owned bank (which has a monopoly on foreign exchange earned from exports to China).

In terms of activity levels, the International Banking Department now processes close to 200 import and 100 export transactions per month. The Bank has expanded its correspondent banking and Relationship Management Application (RMA) relations with 49 banks (covering 26 countries) as of June 2010. Also, the Bank initiated remittance services within the past year by linking up with a US based money-service provider (MFI/Alante) with a very strong base in the Washington D.C. area as well as extensive experience in offering remittance-linked banking products (such as mortgages) in developing countries.

**Human Resources, Administration, and Control**

To fully support the rapid growth of the many operational activities noted above, the Bank has significantly upgraded and strengthened its staff capabilities, its administrative systems, and the control environment. In this regard, the Bank's staff headcount has been raised from 99 to 151 during the fiscal year, with a continued focus placed on recruiting the most talented and experienced

professionals available in the market. Training of staff has also been strengthened and given special attention, with ten staff receiving training abroad in the areas of credit appraisal, project finance, risk management, new product development, trade finance, international banking, and Anti-Money Laundering. In the administrative area, key accomplishments during the fiscal year included the revision or improvement of several important administrative and procedural manuals covering Credit, International Banking, Human Resource policies, Procurement, Fixed Assets, Property Estimation, and Share Administration. Finally, a very significant upgrading of the Bank's Control Department has taken place with an increase in auditing staff and stepped up audit reviews of the Bank's operations, most notably in the Branch, Credit and International Banking Departments.

**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 first year.

**A New and Better Core Banking System**

After an extensive review of its IT systems and long-term requirements, Zemen Bank took the decision to acquire a full-fledged core banking system for its overall operations. The banking software that the Bank utilized since its commencement served a very useful purpose but was limited mainly to the Bank's retail (branch-related) activities. However, in line with all other modern banks, there was a need to have a banking software that integrates all parts of the Bank's day-to-day operations, including retail, finance, credit, and international banking.

Recognizing this, the Bank launched a transparent and competitive bid process for acquiring core

banking software, and selected the Flexcube 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. Preparatory work for the installation of the new core banking system was conducted in the January-June 2010 period and the system itself was deployed on August 2, 2010. 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 new core banking system in place, Zemen Bank will easily be able to interface its software system to the envisaged Automatic Transfer System of the National Bank of Ethiopia when this becomes operational in 2011.

**ATMs**

The Bank's rollout of its ATM network has been slower than expected and only five ATMs were active as of September 2010. The delay in rolling out our ATMs reflected difficulties in acquiring service connections as well as an unexpectedly lengthy period of time taken to negotiate facilities with building owners. However, the Bank currently has 10 additional ATMs in its possession and these will be installed in various locations throughout Addis Ababa over the coming months. With a further 10 ATMs to be purchased this fiscal year, close to 25 ATMs should be deployed by 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.

**Internet Banking**

Zemen Bank's internet banking facility has now been operational for more than a year and has provided a special level of convenience to both personal and business clients who need to regularly access and monitor their transactions. An improvement to the Internet Banking service was undertaken in August/

**CORPORATE  
LOANS**



**Corporate Loans**

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

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

September 2010 alongside the launch of the new core banking software. The Internet Banking service not only offers the ability to check transaction activity and generate account statements, but also now provides customers the ease of being able to make transfers to other accountholders online—the first ever such service in Ethiopia.

**Regulatory Issues**

Zemen Bank has had a positive and constructive working relationship with the National Bank of Ethiopia throughout the past fiscal year. The Bank has welcomed a number of important initiatives by the central bank during the past year, including the start of risk-based bank ratings, the move towards the establishment of a National Payments System (for which the Bank's IT team has made a strong contribution), and the drafting of various important upcoming directives covering E-Commerce, Islamic Finance, and Fit and Proper Criteria for Management and Shareholders.

With respect to the central bank's newly initiated risk-based bank ratings, Zemen Bank is very pleased to have been assigned an overall rating of "1" or "strong" in the NBE's most recent rating (the rating scale varies from "1" being the best to "5" being the worst). The NBE's overall rating reflected a thorough review of the Bank's performance in five areas (following the CAMEL system), including in the areas of Capital adequacy, Asset quality, Management, Earnings, and Liquidity. In addition, a temporary restriction placed by the NBE that had limited Zemen Bank to granting "fully collateralized loans" was removed in June 2010. The Bank is thus now able to offer uncollateralized loans if and when it deems this appropriate.

**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 expedite 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 October 2010. 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 in our foreign exchange operations. Existing shareholders will of course be given an opportunity to contribute towards the capital increase.

**Competitive savings rate**

Zemen Bank began offering the most competitive savings rate in the industry with its 4.5 percent minimum deposit rate (on all accounts above Birr 25,000) as of July 1, 2010. The Bank offers even better rates for customers that place higher value deposits at the Bank: 4.75 percent for Prestige Banking savings accounts and 5.0 percent for Z-Club savings accounts. With this interest rate offer, the Bank is playing a small part in drawing more savings into the formal banking system and, through this process, raising the volume of savings available for the economy as a whole.

**Land acquisition for new headquarters**

Zemen Bank is in the process of acquiring suitable land for the purpose of building a future headquarters building that will be owned by the Bank. The acquisition process has received the support of the National Bank of Ethiopia and is under review by the Addis Ababa City Administration. The new headquarters construction will have financial benefits (given the Bank's rent expenses) and will also provide considerable operational advantages for a fast-growing bank.

**Mobile banking**

Zemen Bank is actively working on introducing mobile banking to the Ethiopian market, potentially providing customers with (pending regulatory approval) the ability to send/receive funds via their mobile phones. An earlier introduction of this service had been planned but has been delayed due to the intensive work involved in introducing various other I.T.-based banking services. The Request for Proposals asking specialist technology firms to provide their bids for this service has been completed and the selection process is currently being finalized. If the intended schedule is on track and assuming regulatory clearance, we expect to introduce the mobile banking service by the end of 2010 or early 2011.

**Pre-paid cash cards and gift cards**

Within the coming months, Zemen Bank intends to offer 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 staff).

**Banking services targeted at the Ethiopian Diaspora**

Besides expanding the scope of our remittance services as noted above, the Bank intends to market two particular financial products more widely. These include Zemen Bank Diaspora Accounts (which allow eligible individuals to open accounts in foreign currencies) and Zemen Bank Diaspora Mortgages. The latter product will allow eligible Ethiopian Diaspora who are currently living abroad to purchase a home for their future return to Ethiopia, and also allow residents in Ethiopia to apply for a mortgage loan at Zemen Bank with the monthly payments paid in foreign currency by Diaspora relatives or friends abroad.

**Combined ATM network with Dashen Bank**

Zemen Bank has just recently reached an agreement with Dashen Bank that allows customers of one bank to utilize the ATMs of the other bank. With Dashen Bank's 55 existing ATMs already deployed and the 25 Zemen Bank ATMs to be operational by 2011, customers of the two banks will have access to a combined ATM network of 80 machines. This will be the largest such network in Ethiopia and will offer tremendous convenience to the customers of both banks.

**Collaborative work with micro-finance institutions**

Zemen Bank signed a guarantee agreement with the German Development Bank, KfW, as part of a program intended to encourage commercial banks to provide loans to microfinance institutions (MFIs).

Zemen Bank is the first bank to enter into such an agreement with KfW and has committed to providing loans to selected MFIs, who will then on-lend these funds to their clients. KfW will provide a guarantee for 50 percent of the loan provided to MFIs, which minimizes the risks to the Bank while also generating interest income for the Bank and diversifying its customer base. The Bank intends to allocate a modest amount of loans for this program in the current year but could expand this depending on credit conditions.

In conclusion, Zemen Bank has in just a short period of time successfully crossed 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 2010

**PERSONAL  
LOANS**



**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.



# PAYROLL SERVICE

PAYROLL			
NAME	SALARY	RATE	DATE
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009
Tilahun Ayale	Salaried	5000.00 Birr	11/11/2009
Mertysse	Salaried	5000.00 Birr	11/11/2009
Alene Nega	Salaried	5000.00 Birr	11/11/2009
Dereu Gertu	Salaried	5000.00 Birr	11/11/2009
Calata	Salaried	5000.00 Birr	11/11/2009
Natnet Hable	Salaried	5000.00 Birr	11/11/2009
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009
Daniel Asafa	Salaried	5000.00 Birr	11/11/2009

## Payroll service

For business customers, Zemen Bank offers the option to subscribe to Zemen Payroll and Provident Fund management services. The service allows for a simple but secure registration process to setup employee salary and provident funds. Every month, the system will accept amendments and automatically credit employee salaries to their relevant accounts. All employees are then able to use their Zemen Payroll ATM card to access funds through our branch or ATM outlets.



# Bank in **Comfort** from anywhere, anytime.

Whether you're working hard or out relaxing, we are at your service.

*Luxury (n):* something desirable or costly but difficult to obtain. It is often said that true luxury is the luxury of having free time... something hard to achieve in today's busy world. Zemen Bank's state-of-the-art services, including 24 hour access to cash through ATM, extended banking hours, Internet and Phone Banking, are all designed to give you just one thing - THE LUXURY OF TIME.

## AUDITORS' REPORT

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### 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.

#### 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 financial statements of Zemen Bank S.C. for the year ended 30 June 2010 which comprise the Balance sheet, the Profit and Loss Account, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements in accordance with applicable laws, regulations and generally accepted accounting principles. Their responsibilities include 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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and generally accepted auditing standards and to express an opinion on these financial statements based on our audit and whether the financial statements are properly prepared in accordance with the relevant provisions of the Commercial Code of Ethiopia and the Banking Business Proclamation No. 592/2008. We also report to you whether in our opinion

the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other

irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements present fairly, in accordance with generally accepted accounting principles, the state of the company's affairs as at 30 June 2010 and its result for the year ended 30 June 2010;
- the financial statements have been properly prepared in accordance with the relevant provisions of the Commercial Code of Ethiopia, the Banking Business Proclamation No. 592/2008 and the directives of the National Bank of Ethiopia.
- the information given in the Directors' Report is consistent with the financial statements.

We have no comment to make on the report of your directors in so far as it relates to these financial statements and pursuant to Article 375 of the 1960 Commercial Code of Ethiopia, recommend approval of the above-mentioned financial statements.

A.W. Thomas & Co.  
Addis Ababa  
Chartered Certified Accountants  
2 September 2010  
(Auditors of the Zemen Bank S.C.)



## DEBITCARD

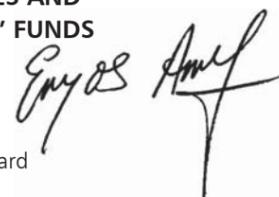


## Debit Card

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 2010  
 In Ethiopian Birr

ASSETS		June 30, 2010	June 30, 2009
Cash and balances with other banks			
Cash on hand	4	23,670,641	7,634,420
Deposits with local commercial banks		5,708,308	6,917,408
Deposits with foreign banks		303,555,392	126,085,022
Deposits with National Bank of Ethiopia	5	278,207,561	80,756,093
		<u>611,141,902</u>	<u>221,392,943</u>
Items in course of collection from other banks	6	14,502,817	4,853,697
Loans and advances to customers	7	377,920,104	186,759,803
Other assets	8	18,394,934	18,931,816
Fixed assets	3.1,9	20,785,007	20,318,570
Intangible assets	3.2,10	12,878,029	10,341,854
<b>TOTAL ASSETS</b>		<u><u>1,055,622,793</u></u>	<u><u>462,598,683</u></u>
<b>LIABILITIES</b>			
Customers' deposits			
Demand		148,371,595	40,536,456
Saving		308,857,682	96,653,186
Fixed		230,795,386	140,658,154
		<u>688,024,663</u>	<u>277,847,796</u>
Margin held on letters of credit		130,399,128	72,690,172
Other liabilities	11	60,461,114	21,544,966
Provision for taxation	19	18,144,206	-
<b>TOTAL LIABILITIES</b>		<u>897,029,111</u>	<u>372,082,934</u>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	12	120,575,976	99,657,675
Legal reserve		12,748,215	-
Retained earnings		25,269,491	(9,141,926)
		<u>158,593,682</u>	<u>90,515,749</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<u><u>1,055,622,793</u></u>	<u><u>462,598,683</u></u>

  
 Ermyas T. Amelga  
 Chairman of the Board

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 2010  
 In Ethiopian Birr

INCOME	Notes	June 30, 2010	June 30, 2009
<b>Interest income</b>	3.3		
Loans and advances		31,121,983	4,523,013
Foreign deposits		114,340	44,215
Local deposit		4,557	22,880
Total interest income		<u>31,240,880</u>	<u>4,590,108</u>
<b>Interest expense</b>	3.3		
Interest paid on deposits		(22,815,510)	(2,908,012)
		<u>8,425,370</u>	<u>1,682,096</u>
Less: Provision for doubtful loans and advances	3.7	(4,022,195)	(1,973,773)
		<u>4,403,175</u>	<u>(291,677)</u>
<b>Other income</b>			
Service income	13	51,876,710	7,346,544
Commissions		513,658	21,682
Gain on foreign exchange		47,331,338	3,058,573
Sundry income	14	3,041,712	2,990,628
		<u>102,763,418</u>	<u>13,417,427</u>
<b>EXPENSES</b>			
Salaries and benefits	15	9,398,589	5,492,203
Rent		5,126,117	3,798,043
Depreciation and amortization		8,676,344	5,115,899
General and administrative	16	11,641,435	7,761,531
Loss and disposal of software	10.1	2,187,816	-
Directors' monthly allowances		861,125	-
Audit fee		138,100	100,000
		<u>38,029,526</u>	<u>(22,267,676)</u>
<b>PROFIT (LOSS) FOR THE YEAR</b>		<u>69,137,067</u>	<u>(9,141,926)</u>
Loss brought forward		(9,141,926)	-
<b>PROFIT (LOSS) BEFORE TAXATION</b>		<u>59,995,141</u>	<u>(9,141,926)</u>
Provision for taxation	19	(18,144,206)	-
<b>PROFIT (LOSS) AFTER TAXATION</b>		<u>41,850,935</u>	<u>(9,141,926)</u>
Transfer to legal reserve		(12,748,215)	-
<b>NET PROFIT AFTER TAX AND LEGAL RESERVE</b>		<u>29,102,720</u>	<u>(9,141,926)</u>
Founders' Share of Profit	20	(2,910,272)	-
Board of Directors' Remuneration	21	(922,957)	-
Transfer to retained earnings		<u>25,269,491</u>	<u>(9,141,926)</u>
<b>Earnings per share</b>	23	<u>38.74%</u>	<u>-</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 2010  
 In Ethiopian Birr

	June 30, 2010	June 30, 2009
<b>Cash flows from operating activities</b>		
Operating profit (loss) before provision for taxation	69,137,067	(9,141,926)
Adjustments for:		
Depreciation and amortization	8,676,344	5,115,899
Interest income from foreign deposits	(114,340)	(44,215)
	77,699,071	(4,070,242)
(Increase) in items in course of collection	(9,649,120)	(4,853,697)
Decrease (increase) in other assets	536,882	4,600,092
(Increase) in loans and advances to customers	(191,160,301)	(186,759,803)
Increase in demand deposits	107,835,139	40,536,456
Increase in saving deposits	212,204,496	96,653,186
Increase in fixed deposits	90,137,232	140,658,154
Increase in margin held on letters of credit	57,708,956	72,690,172
Increase in other liabilities	35,082,919	10,184,208
<b>Net cash inflow (outflow) from operating activities</b>	<b>380,395,274</b>	<b>169,638,526</b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(6,299,796)	(9,215,702)
Investment in intangible assets	(5,379,160)	(3,871,095)
Interest income received on foreign deposits	114,340	44,215
<b>Net cash received from (used in) investing activities</b>	<b>(11,564,616)</b>	<b>(13,042,582)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	20,918,301	5,992,662
<b>Net cash received from (used in) financing activities</b>	<b>20,918,301</b>	<b>5,992,662</b>
<b>Net increase in cash and cash equivalents</b>	<b>389,748,959</b>	<b>162,588,606</b>
<b>Cash and cash equivalents, opening balance</b>	<b>221,392,943</b>	<b>58,804,337</b>
<b>Cash and cash equivalents, closing balance</b>	<b>611,141,902</b>	<b>221,392,943</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 2010  
 In Ethiopian Birr

**1. BACKGROUND AND IMPORTANT EVENTS**

**1.1** 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 founding shareholders of the company as specified in the company's share issue prospectus are Ermias T. Amelga and Teclé Alemneh who are entitled to founders' preferential share dividends.

**1.2** 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.

**1.3** A temporary restriction placed by the National Bank of Ethiopia that limited the Bank to granting only "fully collateralized loans" was removed on 2 June 2010. The Bank is thus now able to offer uncollateralized loans if and when it deems this appropriate.

**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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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	25%
Furniture and fixtures	20%
Office and other equipment	20%
Motor vehicles	20%

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 2010  
 In Ethiopian Birr

**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.

Costs incurred for the acquisition of banking software and SWIFT implementation software are treated as intangible assets and amortized on a straight-line basis over an expected useful life of 10 and 5 years respectively.

**3.3 Interest income and expenses**

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

**3.4 Other income**

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

**3.5 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 balance of foreign currencies on hand and with correspondent banks are converted into Birr at the closing buying rates on the balance sheet date.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**3.6 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.

**3.7 Provisions for loans and advances**

Provisions are maintained at a level adequate to cover possible losses. Management determines the adequacy of the provision based upon reviews of individual credits and other related factors, and pursuant to the Directives of the National Bank of Ethiopia. For prudential reasons, Management has chosen to hold a level of reserves above the minimum regulatory requirements.

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 2010  
 In Ethiopian Birr

**4. CASH ON HAND**

	June 30, 2010	June 30, 2009
Local currency	18,908,847	6,459,360
Foreign currency	4,761,794	1,175,060
	<u>23,670,641</u>	<u>7,634,420</u>

**5. DEPOSITS WITH NATIONAL BANK OF ETHIOPIA**

Statutory reserve balance	105,000,000	45,000,000
Payment and settlement account	173,207,561	35,756,093
	<u>278,207,561</u>	<u>80,756,093</u>

**6. ITEMS IN COURSE OF COLLECTION FROM OTHER BANKS**

Outward bills purchased	4,901,530	2,158,763
Outward documentary bills purchased	9,601,287	2,694,934
	<u>14,502,817</u>	<u>4,853,697</u>

**7. LOANS AND ADVANCES TO CUSTOMERS**

Agriculture	3,427,869	-
Manufacturing	52,186,805	18,331,426
Domestic trade and services	104,978,168	46,039,653
Export	139,205,378	68,191,514
Import	28,255,540	23,223,592
Building and construction	43,108,216	29,061,339
Personal	11,112,163	2,116,625
Staff loans	1,641,933	1,769,427
Less: Provision for doubtful debts and advances	(5,995,968)	(1,973,773)
	<u>377,920,104</u>	<u>186,759,803</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 2010  
 In Ethiopian Birr

	June 30, 2010	June 30, 2009
<b>8. OTHER ASSETS</b>		
<b>Debtors</b>		
- commission receivables	26,752	57,555
- withholding receivables	19,943	-
- Access Capital S.C.	83,460	13,178,049
- others	103,109	12,914
	233,264	13,248,518
<b>Prepayments</b>		
- office rent	3,427,490	2,846,584
- others	1,086,832	1,836,499
	4,514,322	4,683,083
<b>Advance payments-Banking Software</b>		
- CR2 POS Application	4,479,756	-
- Core Banking software (Flexcube)	3,847,528	-
	8,327,284	-
<b>Supplies stock</b>		
- stationery	171,517	106,653
- check books	601,788	524,904
- uniforms	1,023,197	-
- furniture and fixtures in stock	162,726	-
- office and other equipment in stock	3,307,125	147,938
- computers and accessories in stock	-	199,210
- sundry materials	53,711	21,330
- revenue stamps	-	180
	5,320,064	1,000,215
	18,394,934	18,931,816

**8.1 Receivable from Access Capital S.C.**

**8.1.1** During the formation of the Bank, some subscribers erroneously deposited share subscriptions amounting to Birr 7,914,159 in Access Capital S.C. account. In addition, commission of Birr 4,706,319 was also deposited as per the Custodian agreement concluded with Access Capital Services S.C. The outstanding balance of both the aforesaid share subscriptions and commission is Birr 12,620,478.

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 2010  
 In Ethiopian Birr

**8.1.2** The Bank is leasing an 8 storey building located at Kazainches for 5 years covering the period from 8 June 2008 up to 7 June 2013 at a monthly rental of Birr 393,191.40 before 15% VAT. Access Capital S.C. has rented the 7th floor (362.60m2) and part of the 8th floor (90.03m2) with a monthly charge of Birr 27,157, before VAT. A total of Birr 1,068,643 (Birr 557,571 for the period ended 30 June 2009) is charged to Access Capital S.C. for the period from November 1, 2006 upto 30 June 2010, for rent, security and building operations.

**8.1.3** During the period to 30 September 2008 Ermias T. Amelga paid pre-operating expenditure and other related costs totalling Birr 12,290,043 on behalf of Zemen Bank S.C. By its 12th resolution dated 26 June 2008 the board approved payment of Birr 4,000,000 as partial settlement: this amount was paid on 30 June 2008. Thus, there was a net payable balance of Birr 8,290,043 as at 30 June 2009.

**8.1.4** The Bank Board at its 76th meeting dated 14 May 2010 approved the settlement of the net outstanding balances as follows:

Receivables from Access Capital S.C.

	12,620,478	
(Note 8.1.1)	557,571	
(Note 8.1.2)		13,178,049

Cost-sharing of rent, security etc receivable from Access Capital for the period July 2009 to April 2010	427,612
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Payable to Ermias T. Amelga (Note 8.1.3)	(8,290,043)
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Other payable to Ermias T. Amelga	(751,078)
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Payable to Access Capital Services S.C. as per the consultancy agreement signed between Access Capital S.C. and Access Bank (now Zemen Bank on 15 March 2007). (Note 10.3)	(3,013,547)
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Net payment received on 14 May 2010 from Access Capital S.C.	1,550,993
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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 2010  
 In Ethiopian Birr

**9. FIXED ASSETS**

Cost	Balance	Additions	Balance
	30.9.2009		
Computer hardware	10,469,815	1,742,446	12,212,261
Furniture and fixtures	6,570,703	1,017,358	7,588,061
Office and other equipment	1,895,800	722,919	2,618,719
Motor vehicles	5,554,855	2,817,073	8,371,928
	<u>24,491,173</u>	<u>6,299,796</u>	<u>30,790,969</u>
<b>Accumulated depreciation</b>			
Computer hardware	2,018,561	2,548,425	4,566,986
Furniture and fixtures	1,028,984	1,311,816	2,340,800
Office and other equipment	291,830	465,378	757,208
Motor vehicles	833,228	1,507,740	2,340,968
	<u>4,172,603</u>	<u>5,833,359</u>	<u>10,005,962</u>
<b>Net Book value</b>	<u>20,318,570</u>		<u>20,785,007</u>

**10. INTANGIBLE ASSETS**

Cost	Balance	Additions	Reclassification	Disposal	Balance
	30.6.2009				30.6.2010
Computer software	2,397,617	4,098,950	3,526,383	(2,305,547)	7,717,403
Capitalized expenditure	5,365,743	3,013,547	-	-	8,379,290
SWIFT implementation cost	577,968	-	-	-	577,968
Software under-development	3,071,903	454,480	(3,526,383)	-	-
	<u>11,413,231</u>	<u>7,566,977</u>	<u>-</u>	<u>(2,305,547)</u>	<u>16,674,661</u>
<b>Amortization</b>					
Computer software	179,821	599,502	-	(117,731)	661,592
Capitalized expenditure	804,861	2,127,890	-	-	2,932,751
SWIFT implementation cost	86,695	115,594	-	-	202,289
	<u>1,071,377</u>	<u>2,842,986</u>	<u>-</u>	<u>(117,731)</u>	<u>3,796,632</u>
<b>Net book value</b>	<u>10,341,854</u>			<u>2,187,816</u>	<u>12,878,029</u>

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

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**10.1** The bank acquired world-class core banking software (Flexcube) from Oracle Financial Services Software BV for Birr 3,847,528 (USD 225,700) (Note 8) to offer technology-based products through multiple channels. The new software integrates all of the Bank's activities through software modules for Retail Banking, Finance, International Banking, and Credit. The new banking software became operational in August 2010. The two previous software systems (eZ Banker and SL Dynamics) with a book value of Birr 2,187,816 are written off to the profit and loss account as they will have no future economic benefit to the bank.

**10.2** Capitalized expenditure cost of Birr 5,365,743 represents pre-operational costs after deduction of commission on share subscriptions and deposit interest income on share proceeds.

**10.3** Current year additions of capitalized expenditure of Birr 3,013,547 represents settlement of outstanding balances of Birr 5,160,372 (including 15%, VAT), 3% consultancy service given by Access Capital S.C. for the bank's share sales management after offsetting Birr 2,146,825 pre-operational costs incurred and paid by the bank in relation to the bank's share sales.

**11. OTHER LIABILITIES**

	June 30, 2010	June 30, 2009
Payable to Ermyas T. Amelga	-	8,290,043
Tax payables	370,092	247,622
CPO payables	25,474,718	6,224,103
Exchange payable to NBE	2,865,816	1,229,776
Provident fund (Note 18)	-	1,124,884
Accruals	4,237,353	738,774
Subscribers payables	-	1,112,320
Founders' share of profit	4,185,093	-
Directors' share of profit	922,957	-
Other liabilities	2,052,471	1,465,671
Other banks	21,627,435	1,111,773
	<u>61,735,935</u>	<u>21,544,966</u>

**12. SHARE CAPITAL**

The Authorized share capital of Zemen Bank is Birr 300,000,000 comprising 300,000 ordinary shares of Birr 1,000 each, of which the following is:

Subscribed	<u>149,576,000</u>	<u>149,576,000</u>
Paid-up	<u>120,575,976</u>	<u>99,657,675</u>

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	June 30, 2010	June 30, 2009
<b>13. SERVICE INCOME</b>		
Service charges - foreign	51,793,430	7,336,764
Service charges - local	83,280	9,780
	<u>51,876,710</u>	<u>7,346,544</u>
<b>14. SUNDRY INCOME</b>		
Loan processing fee	2,305,471	2,871,933
Overdraft protection fee	79,620	13,710
Balance maintenance fee	491,200	72,050
SWIFT charge	18,074	4,400
Documentation fee	1,463	1,348
Miscellaneous	145,884	27,187
	<u>3,041,712</u>	<u>2,990,628</u>
<b>15. SALARIES AND BENEFITS</b>		
Salaries	6,512,803	3,781,150
Representation allowances	377,456	225,741
Overtime	43,137	15,248
Transport allowances	501,314	295,391
Mobile telephone allowances	65,389	51,872
Provident fund	928,651	562,260
Staff insurance and medical expenses	206,758	90,900
Training and education	157,856	25,447
Laundry allowance	37,655	28,900
Uniforms	124,540	117,256
Housing allowance	169,815	-
Leave pay	273,215	298,038
	<u>9,398,589</u>	<u>5,492,203</u>
<b>16. GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Security and janitorial services	461,121	385,478
Telephone, fax and internet	440,665	451,623
Stationery and printing	459,715	358,636
Advertisements	1,726,891	857,767
License and registration fee	947,971	511,113
Maintenance and repair	253,085	282,263

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	June 30, 2010	June 30, 2009
Annual General Meeting	901,511	-
Inauguration	-	573,793
Utilities	190,301	146,010
ATM cards	138,299	303,633
IT service provider fee (Note 16.1)	3,465,454	2,748,787
SWIFT and correspondent charges	819,929	199,796
Commissions	502,133	-
Consultancy	184,554	254,833
Fuel and lubricants	347,622	118,675
Insurance	197,510	90,256
Sundries	350,815	407,189
Entertainment	78,822	41,679
Donations	175,037	30,000
	<u>11,641,435</u>	<u>7,761,531</u>
<b>16.1 Offshoring 2.0 Technology Services PLC charges a resource fee and an IT operation management fee for the IT services provided to the Bank. The charges for these services are based on IT performance indicators, time-sheets and payrolls of the staff members involved respectively. Included in IT services provider fee is Birr 3,211,590 paid to Offshoring 2.0 Technology Services for the services provided during the year.</b>		
<b>17. CONTINGENT AND MEMORANDUM ITEMS</b>		
<b>17.1 Guarantees issued to customers</b>	<u>9,723,416</u>	<u>810,100</u>
<b>17.2 Commitments</b>		
Letters of credit	179,105,132	82,131,471
Less: margins held on letters of credit	(130,399,128)	(72,690,168)
	<u>48,706,004</u>	<u>9,441,303</u>
Inward bills for collection	28,036,229	236,605
	<u>76,742,233</u>	<u>9,677,908</u>
Overdrafts	<u>Nil</u>	<u>Nil</u>
Loans	<u>72,291,667</u>	<u>74,052,973</u>
<b>17.3 Accrued interest receivable on non-performing loans</b>	<u>498,233</u>	<u>-</u>

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**18. 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 Labour Proclamation No. 377/2003 and Amendment No. 494/2006.

The accruals for liabilities and separate bank accounts relating to the staff provident fund are no longer included in the Bank's balance sheet.

**19. TAXATION**

	June 30, 2010	June 30, 2009
Profit (Loss) before tax	69,137,067	(9,141,926)
Add: Donations	175,037	30,000
Entertainment	78,822	41,679
Employees' allowances in excess of allowable amount	69,484	-
Tax on monthly Directors' allowances	190,364	-
Interest on local deposits	(4,557)	-
Interest on foreign deposits	(114,340)	-
	<u>69,531,877</u>	<u>9,070,247</u>
Less: Loss brought forward for tax purposes	(9,070,247)	(9,070,247)
Taxable profit	<u>60,461,630</u>	<u>-</u>
Profit tax at 30%	18,138,489	-
Tax on interest of foreign deposits at 5%	5,717	-
Provision for taxation	<u>18,144,206</u>	<u>-</u>

**20. FOUNDERS' SHARE OF PROFIT**

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

**21. BOARD OF DIRECTORS' REMUNERATION**

The Board of Directors' remuneration of 4% was calculated after the deduction of 25% legal reserve and 5% of the paid-up share capital.

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**22. RELATED PARTY TRANSACTIONS**

A consultancy agreement was signed between Access Capital S.C. and Access Bank (now Zemen Bank) on 15 March 2007 to facilitate the sale of shares, and to advise and assist in managing the sale of shares offered by the Bank but the agreement was not recognized by Zemen Bank Board in the previous fiscal year. The Board has reconsidered its decision and passed a resolution authorizing the payment of the amount claimed by Access Capital as long as this was done after deducting all share-related expenses incurred by the Bank, for facilitating share sales, and the total amount of consultancy fees for the bank's share sales management which occurred in the pre-operating period ended 30 September 2008. After deducting the costs of Br. 2,146,825 incurred by the bank for facilitating share sales, the balance of Br. 3,013,547 is off-setted as shown in Note 8.1.4.

In addition, as Zemen Bank and Access Capital share a common building, there is a cost-sharing of rent, security and related expenses that amounted to Birr 369,372 for the year ended June 30, 2010.

**23. EARNINGS PER SHARE**

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

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

# NOTES



## INVESTING IN ETHIOPIA? THINK... ZEMEN BANK.



Coming to Ethiopia for business or pleasure? **Zemen Bank** is there to support your banking needs with a wide range of financial solutions:

**Open a foreign currency account** at Zemen Bank and make withdrawals from this account either in foreign exchange (for eligible transactions) or in Birr as you prefer.

**Make quick money transfers** from your account in the US or Europe (via SWIFT) to your Zemen Bank account in Ethiopia at favorable exchange rates.

**Use Zemen Bank's ATM cards** 24 hours a day for making cash withdrawals and for transferring funds to others.

**Internet Banking** Access your account online at anytime and from anywhere ([www.zemenbank.com](http://www.zemenbank.com))

**Receive notifications and alerts** via email or text messages whenever your account balance goes low or large withdrawals are made.

**Call Center Banking** Receive account information securely from our call center agents by calling 251 11 550-11-11.



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