

# **ANNUAL REPORT 2009**





ANNUAL REPORT 2009

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# V I S I O N & MISSION

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, proud 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.



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High-tech banking using our multi-channel banking system. At the branch, 13 tellers minimize any waiting. All transactions are electronic and we strive to complete your visit within 5 minutes Every customer has an ATM card and personal identification number (PIN) which will be used for transactions to ensure speed and security.

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SEN	IOR M	ANAG	EMEN	١T			3
CHA	IRMAI	N'S ST	ATEN	IENT			4
INA	JGURA	ATION					7
DIRE	CTOR	s' rep	ORT				8
FINA	ANCED	PROJI	ECTS				14
SOC	IAL AC	TIVITI	ES				15
AUD	ITORS	' REPC	ORT				17

# O A R D O F В DIRECTORS





Zemen BANK

Zemen

Ermyas T. Amelga

**Board Chairman** 

Tameru Wondm Agegnehu **Board Director** 





Dr. Tsegaye Habte **Board Director** 



Zemen BANK

**Eskinder** Desta **Board Director** 





Wubetu Workneh Board Director

Zemen

**Сете** ВАНК

**Tecle Alemneh** 

**Board Director** 



**Сете** ВАНК

**Ermias Eshetu Board Director** 









Melaku Kebede V.P. Technology



Zemen Solomon Mamo **Finance Department** Manage





Manage



\* some of the appointments above are pending NBE's approval WWW.ZEMENBANK.COM

Customers who maintain a minimum monthly balance of Birr 100,000 are allocated a Personal Banking Representative. The representative will handle all your transactions and banking needs in private, backed by our information technology system and fully informed of your personal banking needs.

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ANNUAL REPORT 2009





- You can contact your Personal Banking Representative personally by a visit to the branch or by phone.

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# CHAIRMAN'S STATEMENT

t is with great pleasure that I introduce to you the first Annual Report of Zemen Bank, whose singular vision is to bring a new level of innovation and dynamism to the banking business in Ethiopia. Zemen Bank has only been open for a year, but we are already well advanced in making our vision a reality, by installing worldclass information technology (including some of the most advanced banking software and hardware to be found anywhere in the country), by introducing the use of multi-channel banking (such as ATMs, Internet and Mobile banking), and by offering unparalleled customer service tailored to the unique circumstances of its clients.

> Our first year in the banking business has been a challenging one on many fronts. The global economic crisis deepened just at the moment when we opened our doors to the public in October 2008. Domestic economic conditions were not immune to the outside world: economic activity slowed and foreign exchange dwindled reserves to very low levels as exports, remittances and foreign direct investment were hit by the global economic

crisis. As inflation reached levels not seen in many years, the central bank responded by imposing credit restrictions in the last quarter of the fiscal year that significantly held back our envisaged lending operations. Launching bank operations in such a difficult domestic macroeconomic environment and at one of the lowest points in the global economic cycle has certainly not been ideal, but we have in many ways also been strengthened by starting in the midst of such challenging times.

Indeed, despite multiple challenges, our first nine months of operations include several notable accomplishments of which we are very proud. As is detailed more fully in the Board of Directors report, our performance in the three key areas of commercial banking operations—collecting deposits, providing loans, and securing foreign exchange—has been at the top range of what has been seen so far from the first year performance of private banks in Ethiopia. That we have been able to do this all from the resources of a single branch is all the more impressive and serves as a testament to the unique model and services that we offer.

Besides our successes in quantitative measures of banking operations, we are just as proud of the qualitative improvements we have brought to the banking sector in Ethiopia. Backed with world-class information technology, we are beginning to offer innovative products and services that are still new to the Ethiopian market. Alongside this, and thanks to the efforts of our dedicated staff, we are providing extraordinary customer service. Whether it is our highly-trained Personal Bankers, our speedy Teller services, our customized corporate services, or our impeccably furnished branch environment, our focus is not just on what we do but how we do it.

For our shareholders, our objective of delivering profits from the very first year has unfortunately not been realized—but for very good reasons. Zemen Bank was formed with a grand vision and with big ideas. Being a pioneer with a grand vision and big ideas is in-and-of-itself bound to be highly challenging but particularly so in the Ethiopian context. Zemen's aggressive and innovative entry into the Ethiopian banking sector disturbed the status quo. The obstacles encountered in our formation process were many and varied. Beyond the significant time and effort expended unnecessarily, the financial impact of the delays and adversities we encountered in starting operation has directly affected the speed with which our initial months of operations progressed.

In addition, such big ideas of course require big investments, and that is precisely what we have done in our first nine months: we spent over Birr 24 million on world-class computer hardware and software alone, an investment that is the foundation of our drive to become Ethiopia's premier technology-based bank. These investments take time to yield results, but failing to undertake them would have meant failing to follow our strategic vision. To remain true to our vision and to put the bank in a position to generate superior results in the future, we have thus chosen to bear large up-front establishment expenses even at the cost of showing a loss in our first reporting period (which covered only nine months of operations).

Fortunately, we are pleased to note that our large investments are already bearing fruit and have begun translating into profits fairly quickly. Although the Bank registered losses in its first two quarters of operations (October 2008-March 2009), this was no longer the case by April 2009, allowing us to register a profit in the final quarter of the fiscal year. Indeed, were our accounts presented on a full year basis, namely October 2008-September 2009, we are pleased to note that we would have registered a profit for the 12-month period even after accounting for our large up-front costs.

Looking forward, we see much better days ahead for the Bank. Zemen Bank is now comfortably registering profits on a monthly basis and we intend to show a significant profit this fiscal year. We will be helped in this regard by improving global economic conditions, especially as our International Banking Department is

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# Zemen BANK ZElub

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Z-Club offers the highest level of banking service to our priority customers. To qualify you should maintain a minimum monthly balance of Birr 500,000. We allocate a specialist Personal Banking Representative, backed by a team of specialist advisers to help with all your financial needs and banking advice. The account brings preferential rates, bank charge waivers and negotiated loans, backed by world-class technology, to make your banking easier, faster and totally informed at all times.

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#### .... CHAIRMAN'S STATEMENT CONTINUED

now well-positioned to benefit from the expected jump in the country's export earnings that should follow the recovery in global trade and investment. Although our ability to extend credit will remain limited due to the central bank's anti-inflationary policies, we expect a strong increase in our net interest income (as our loan book continues to expand) and an even larger increase in income from international banking activities, which are showing remarkable growth in recent months. Further supporting our financial performance will be the respected brand name that we have built as one of the industry's more innovative and dynamic players.

For our valued customers, we will continue to provide-with personalized service-all the regular banking services commonly available in the industry, be it accepting deposits, providing loans, or offering international banking services linked to export and import activities. Even more, however, the year ahead will deliver the convenience of multi-channel banking services that have been promised since the launch of Zemen Bank, including ATMs, Internet Banking, SMS, and Call Center Banking. All these services are now up and running and will provide clients with tremendous ease and convenience on many fronts. To name a few examples: cash withdrawals are now available 24 hours/7 days a week from our ATMs; individuals can get instant account information by phone; and business clients can easily download their daily or weekly transaction records from the comfort of their offices. These technology-based services are only the start of our ambitions in this area and we aim to leverage our technological advantage to bring even more innovation and convenience in the coming years, including (pending regulatory approval) facilities such as express remittance services, automated payroll services, money transfers using mobile phones, and bill payment services. In short, we

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see a bright future in technology-based banking and plan to successfully deliver our promises to our shareholders and our customers by being at the very forefront of this field in the years ahead.

More generally, I believe we have succeeded in creating the foundation for what will be a major new institution on the Ethiopian business landscape. It will distinguish itself on many fronts including its grand vision, its bold innovation, its aggressive business strategy, its performance excellence, its value creation and, most importantly, its profitability.

Finally, I would like to conclude by extending my heartfelt thanks and appreciation to the following:

- Our 2800 shareholders who believed in us in the face of all challenges and adversity;
- Our many corporate and individual customers who have trusted us with their business;
- Our exceptionally talented, dedicated, and hardworking staff;
- Our inspired, competent, and professional management team;
- eVentive LLC without whose partnership Zemen Bank would not be Zemen Bank:
- Our many other partners and supporters who have contributed greatly to our budding success.

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

Ermyas T. Amelga Chairman of the Board of Directors 21 November 2009

# INAUGURATION 25 JANUARY 2009



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Zemen Bank, with its global expertise, technological sophistication and range of correspondent banks, as well as SWIFT communication media, provides a full array of international banking services.



# ATIONAL BANKING INTERNATIONAL BANKING INTERNATION

# DIRECTORS' R F P O R

**Banking Operations** 

Zemen Bank has shown a strong start in the three key areas that are critical for any commercial banking operations, namely collecting deposits, providing loans, and securing foreign exchange to be able to offer international banking services. Indeed, by our calculations, our first nine-month performance in all three areas is at the top range of what has been seen so far from the first year performance of other private banks in Ethiopia.

#### **Deposit Mobilization**

300

250

200

Birr

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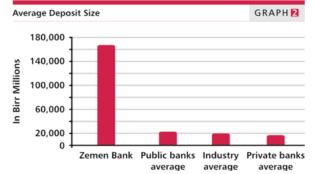
The Bank successfully mobilized Birr 278 million in a period of nine months-all from just a single branch. This level of deposits is the highest amount collected by any private bank in its first year of operation; the best record for a nine-month period so far was only Birr 135 million. [GRAPH 1]

Deposits Collected In First Nine Months Of Operations

The Board of Directors is pleased to present the following overview of Zemen Bank's performance during its first nine months of operations (October 2, 2008 to June 30, 2009). The review below covers five distinct areas: (i) banking operations; (ii) financial performance; (iii) technology-based banking services; (iv) human resources; and (v) the outlook for the period ahead.

The Bank collected deposits from a total of around 1700 corporate and individual clients. Large institutional depositors include multinationals, employee credit associations, insurance companies, utilities, and industry associations. With respect to individuals, Zemen Bank's deposit mobilization efforts are concentrated on high-value depositors and include three types of accounts targeted to different client segments: (i) a Basic checking/saving account (which requires a minimum deposit of Birr 25,000 to avoid monthly fees); (ii) a Prestige checking/saving account (Birr 100,000 minimum deposit to avoid monthly fees), and (iii) a Z-Club checking/saving account (Birr 500,000 minimum deposit to avoid monthly fees).

Reflecting the distinctive client base targeted above, the average size of Zemen Bank's deposits is about Birr 163,000 per depositor. This figure is roughly

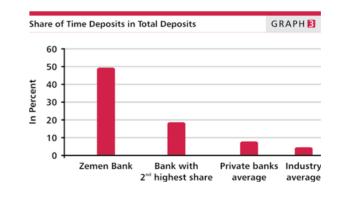


ten times the average level at other private banks, consistent with our business model of targeting high-value deposits. [GRAPH 2]

The composition of the Bank's deposits is favorably tilted towards longer-term deposits held in the form of time deposits which are locked in at the Bank for periods of six, twelve, or twenty-four months. In fact, as of June 2009, around 50 percent of Zemen Bank deposits were comprised of time deposits held for such extended maturities-the highest percentage observed in the Ethiopian banking industry. While collecting such deposits entails some extra costs (since the interest rates paid on time deposits are slightly higher than the rates offered on savings deposits), the longer maturity of time deposits provides the Bank with a comfortable base of long-term funds on which it can extend longer-term loans. With this approach, the Bank is making a contribution to a long-standing problem observed in the banking industry, namely the limited availability of medium- and long-term bank loans. [GRAPH 3]

#### Lending

Total lending by Zemen Bank reached Birr 189 million (excluding loan loss provisions) in our first nine months of operations, which has translated



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Internet Banking: You can check your balances, transfer funds and pay your bills on line with just a

click of a mouse, 24 hours a day.

SMS Banking: Check your balance and transfer funds by SMS.

Zemen never sleeps!

150 100 50 Best record so far Private banks Zemen Bank average

ANNUAL REPORT 2009



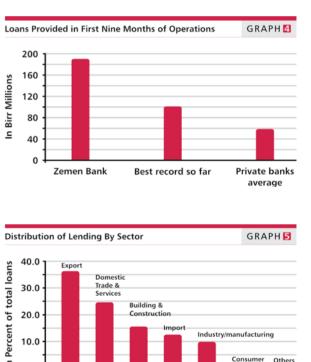
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into a loan-to-deposit ratio stood of around 68 percent at year-end. By comparison, the average loan-to-deposit ratio among private banks was somewhat lower at 63 percent. Our lending has been provided to a total of 177 borrowers. As with our deposit mobilization performance, the lending provided by Zemen Bank in its first nine months of operations is the highest amount lent by any private bank during a comparable period. [GRAPH 4]

Our lending is distributed across a broad range of sectors but is very favorably tilted towards exporters, who comprise the single largest category of loans (36 percent of total) and help the Bank earn additional income through foreign exchange services. Other large lending categories include domestic trade and services (24 percent), building and construction (15 percent), imports (12 percent) and industry (10 percent). [GRAPH 5]



Secto

- ATM Outlets: Access your account and cash with an ATM card.
- Call Center Banking: Interactive voice response and live customer service support 24 hours a day -

#### .... DIRECTORS' REPORT CONTINUED

In terms of the type of credit products offered by the Bank, the majority (66 percent) of our lending has been in the form of term loans, followed by merchandise loans (21 percent). By client category, more than 80 percent of our borrowers are corporate entities, but we have also devoted a sizeable share (15 percent) of our portfolio to individuals by offering mortgage and consumer loans. [GRAPH 6] In terms of the maturity of our loans, nearly 40 percent of our total lending has involved mediumand long-term loans, thus helping ease in a modest way the scarcity of long-term finance in the banking industry. [GRAPH 7]

#### **International Banking**

10

The International Banking Department has made a very impressive start by successfully attracting several of the country's largest exporters to direct their export earnings through our Bank. By channeling exporters' foreign exchange earnings to importers who need hard currency for various products, the Bank has been able to earn more than Birr 7.3 million in service income by way of letter of credit fees charged to importers.

The foreign exchange inflows received by the Bank's International Banking Department have been sourced from a diversified base of exporters, including those engaged in coffee, flowers, sesame, and livestock exports. It is particularly noteworthy

that the Bank's export clients include two of the country's largest flower exporters, several of the top 25 coffee exporters, as well as leading exporters of sesame seeds and livestock. The Bank has also been able to attract the foreign exchange inflows of international organizations and embassies. With our foreign exchange inflows favorably spread across multiple sectors, we are well-positioned to cope with adverse external shocks that might affect a single sector due to a drop in international prices for that commodity.

Besides income generated from service fees, our holdings of foreign exchange with correspondent banks abroad has provided us with revaluation gains as the Birr depreciated relative to the USD. Such revaluation gains provided a net income of around Birr 3 million in the last nine months. We have benefitted from this revaluation gain given our sizeable share of foreign assets in our total assets (around 27 percent for Zemen Bank versus an industry average of less than 10 percent).

The Bank is in the process of building relationships with several leading international banks. Correspondent banking agreements are already in place with Commerzbank (Germany) and Citibank (U.S.A.). In addition, Zemen Bank joined the SWIFT communication system in February 2009 allowing for easy, electronic fund transfers with banks worldwide.



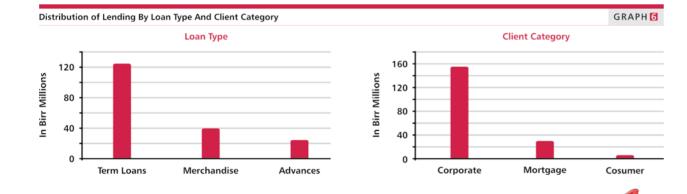
### **Financial performance**

#### Income statement

Zemen Bank's financial results for the first nine months show an operational loss of Birr 2.0 million and an overall loss (after including one-time depreciation, amortization and provision expenses) or Birr 9.1 million. This loss reflects the net effect of Birr 18.0 million in revenue raised by the Bank against Birr 27.14 million in overall expenses. [GRAPH 8]

#### Revenue

The Bank was able to raise around Birr 18 million in gross revenue in its first fiscal year. The largest revenue items, in order of importance, arose from international banking related services charges, gross interest income, and foreign exchange revaluation gains. The high share of non-interest revenue (at 75 percent of total gross revenue) reflects the very strong initial contribution of the International Banking Department and the fact that, as a bank just starting operations, our new loans had not yet fully began paying interest in the first nine-month period.



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Distribution of Loans by Maturity GRAPH 7 Medium and Long term Loans 39.2% Short-term Loans 60.8 %

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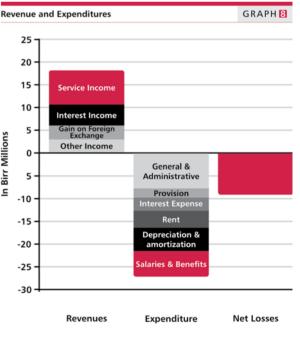
Zemen Bank offers premium services to business and corporate clients. We can offer finance to help: - Establish a new business - Expand a successful business - Buy or upgrade plant, fixed assets or equipment to boost your productivity - Meet other business finance needs

Million Birr <u>\_</u>

A more balanced composition in revenue between interest and non-interest sources is expected in the coming year as our loan book begins to generate more substantial interest income.

## Expenditure

Total spending by the Bank amounted to Birr 27.14 million in our first nine months, with staff salaries comprising one of the single largest category of total expenditure. This reflects the rapid progress in reaching close to full staffing levels for most departments. Other large expenditure items included items related to the Bank's heavy investment in new fixed assets (Birr 4 million for depreciation), office rent (Birr 3.8 million), and fees to our IT service provider (Birr 2.7 million). Our cost-to-income ratio was high during this reporting period reflecting large up-front establishment costs and a still growing revenue base; however, this ratio is expected to fall in the year ahead alongside the expected jump in earnings and the fact that the Bank will not be facing major operational expenses associated with branch expansion costs.



11

**CORPORATE LOANS CORPORATE LOANS CORPO** 

#### .... DIRECTORS' REPORT CONTINUED

#### **Balance Sheet**

The Bank has built up an asset base of Birr 462.6 million as of June 2009. The Bank's largest assets were cash balances held at domestic and foreign banks (Birr 221.4 million) and loans and advances offered to clients (Birr 186.8 million). Reflecting the Bank's large investment in information technology and building facilities, the stock of fixed and intangible assets is also sizeable, amounting to Birr 30.6 million. The very high share of liquid assets in total assets shows the Bank in a comfortable liquidity position. This is further corroborated by a maturity gap analysis conducted for three-month, six-month, one year, and more-than-one-year time periods, which reveals a low risk of asset/liability mismatches on our balance sheet.

On the liability side, deposits comprise 60 percent of the Bank's total liabilities and capital, while outstanding advances from customers opening letters of credit made up another 16 percent.

The Bank's capital base amounts to Birr 99.7 in paid-up share capital, out of a total subscribed capital base of Birr 149.7 million. This capital base provides us with a very solid capital-asset ratio of 21 percent. The Bank's shareholder base as of June 30, 2009 includes around 2800 shareholders and is relatively well-diversified, with no institutional shareholder having more than 2<sup>1</sup>/<sub>2</sub> percent of total shares and no single individual having more than 1 percent of total shares.

#### **Technology-based Banking**

Zemen Bank strives to be Ethiopia's pre-eminent technology-based bank and has pursued a distinctive strategy of outsourcing its information technology activities to a firm with international experience in this area. Our strategic partnership

with Offshoring 2.0 Technology Services PLC, the local affiliate of Eventive LLC USA, has enabled us to mix international best practice with locally tailored solutions.

From its very first day of operations, the Bank has implemented a retail banking software system (eZBanker) that has allowed it to conduct electronically-based branch transactions. The software installed has been integrated with several additional software products and made possible the Bank's offerings of services such as ATMs, Internet Banking, and SMS Banking.

#### Human Resources

The highly professional staff of Zemen Bank is one of its unique strengths and distinctive features. In less than a year, the Bank has successfully attracted a range of highly rated and top-performing banking professionals in all its main operational departments. This has been possible by giving utmost priority to attracting the most talented banking professionals and by offering the most competitive and attractive compensation scheme in Ethiopia's banking industry. The Bank will continue to maintain its compensation and benefits packages to ensure that it remains at the very top end of the local banking industry.

Zemen Bank's total staff reached 99 at end June 2009. The staff distribution shows 32 percent in the Branch, 14 percent in the Credit Department, 11 percent in the International Banking Department, and 43 percent in the Executive Management, Finance, Administration, and other units. The Bank has a young and dynamic staff, with 99 percent of employees under the age of 40; about 38 percent of the staff are female.

## Outlook

Zemen Bank's first year of operations has laid solid foundations for our future growth. In the year ahead, we aim to reap the fruits of this work—both operationally, in terms of enhanced services for our individual and corporate clients, and financially, in terms of satisfactory profits and dividends for our shareholders.

In this regard, we are excited about our new operations and planned ventures in several areas:

- ATM Banking services will be rolled out more extensively throughout this fiscal year. Our network of ATMs is projected to jump to 15 by June 2010 and increase even more substantially in the second half of 2010.

- Internet Banking, which is already fully operational, will be enhanced further by additional customer-friendly features such as the ability to transfer funds from one account to another person's or company's account.

- Call Center and SMS Banking will continue to enhance customer convenience by allowing customers to receive alerts and notices over the phone.

- Payroll services, in which Zemen Bank handles the salary payment processes of a company, will also be introduced. A company can choose to have all its monthly salaries paid electronically, for example, with employees making cash withdrawals by using debit cards provided to them by Zemen Bank.

- Other new products and services, most notable among which is (pending regulatory approval) the ability to send money to others by the use of one's mobile phones.

By working to deliver all of the above services, Zemen Bank plans to enter the exciting new space where banking and technology interface to provide valuable financial solutions to individuals, small businesses, corporations and organizations. In all these endeavours, the Bank will work to tailor its products and services to the distinctive environment and conditions of Ethiopia. In doing so, Zemen Bank aims to be not just a technology-driven Bank but also a distinctively Ethiopian technology-driven Bank.

# 12

## ANNUAL REPORT 2009





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# SOME OF OUR **CUSTOMERS**

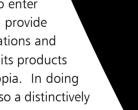


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MORTGAGE LOANS: Zemen Bank mortgage loan solutions can make your dreams come true - tomorrow. Zemen Bank Home Loans are designed for people with steady incomes (full-time employment in Government or private sector, or self-employed in an established business). PERSONAL LOANS: Zemen Bank will offer personal loans to people in full-time employment. Your loan repayment amount must be affordable and your employer must agree to make deductions from your payroll each month and pay Zemen Bank, until the loan is repaid.



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# FINANCED PROJECTS







TEKEZ

PAYROLL











For business customers, Zemen Bank offers the option to subscribe to Zemen Payroll and Provident Fund management services. The services allows for a simple but secure registration process to setup employee salary and provident funds. Every month, they system will accept amendments and automatically credit employee salary 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.



PAYROLL SERVICES

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WFP Run to prevent world hunger





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EXTE	RNAL AU	DITOR:	s' repor	Т	18
BALANCE SHEET					19
PROFIT AND LOSS ACCOUNT					20
STATEMENT OF CASH FLOWS					21
NOTES FORMING PART OF THE FINANCIAL STATEMENTS					22





# EXTERNAL AUDITORS' REPORT

We have audited the financial statements of Zemen Bank S.C. for the period from 1 October 2008 to 30 June 2009 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.

Without qualifying our opinion we draw attention

to Note 1.2 to the financial statements regarding restrictions placed by the National Bank of Ethiopia on the banking operations of Zemen Bank S.C. These restrictions are still in place and if the bank is unable to have the restrictions removed then this situation creates uncertainty about the extent of its current business operations in comparison with the basic business strategy described in the 'mission and objectives' set out in the prospectus to subscribers.

#### 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 2009 and its result for the period from 1 October 2008 to 30 June 2009:

- 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** 28 September 2009 (Auditors of the Zemen Bank S.C.)



# ANNUAL REPORT 2009

DEBIT

CARD

Zemen

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.

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## ZEMEN BANK S.C.

# **BALANCE SHEET**

AS AT 30 JUNE 2009 In Ethiopian Birr

ASSETS		June 30, 2009	Sept. 30, 2008
Cash and balances with other banks			
Cash on hand	4	7,634,420	10,000
Deposits with local commercial banks		6,917,408	43,794,337
Deposits with foreign banks	_	126,085,022	-
Deposits with National Bank of Ethiopia	5	80,756,093	15,000,000
		221,392,943	58,804,337
Items in course of collection from other banks	6	4,853,697	-
Loans and advances to customers	7	186,759,803	-
Other assets	8	18,931,816	23,531,909
Fixed assets	3.1,9	20,318,570	15,147,388
Intangible assets	3.2,11	10,341,854	7,542,137
TOTAL ASSETS		462,598,683	105,025,771
LIABILITIES			
Customers' deposits			
Demand		40,536,456	-
Saving		96,653,186	-
Fixed		140,658,154	-
		277,847,796	-
Margin held on letters of credit		72,690,172	-
Other liabilities	12	21,544,966	11,360,758
TOTAL LIABILITIES		372,082,934	11,360,758
SHAREHOLDERS' FUNDS			
Share capital	13	99,657,675	93,665,013
Retained earnings (deficit)		(9,141,926)	-
		90,515,749	93,665,013
TOTAL LIABILITIES AND			

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

Ermyas T. Amelga Chairman of the Board

ZEMEN	BANK S.C.					
PROFIT AND LOSS ACCOUNT						
FOR THE PERIOD FROM 1 O	CTOBER 2008 <sup>·</sup> iopian Birr	TO 30 JUNE 2009				
INCOME	Notes	June 2009	To Sept 2008			
Interest income						
Loans and advances		4,523,013	-			
Foreign deposits		44,215	-			
Local deposit		22,880	-			
Total interest income		4,590,108	-			
Interest expense						
Interest paid on deposits		(2,908,012)	-			
		1,682,096	-			
Less: Provision for doubtful loans and advances	3.7	(1,973,773)	-			
		(291,677)	_			
Other income						
Service income	14	7,346,544	-			
Commissions		21,682	-			
Gain on foreign exchange		3,058,573	-			
Sundry income	15	2,990,628	-			
		13,417,427				
EXPENSES						
Salaries and benefits	16	5,492,203	-			
Rent		3,798,043	-			
Depreciation and amortization	. –	5,115,899	-			
General and administrative	17	7,761,531	-			
Directors' remuneration Audit fee and expenses		- 100,000	-			
		(22,267,676)	-			
NET LOSS		(9,141,926)	-			

# Less: Provision for

Other income	
Service income	

Commissions Gain on foreign exchange
5 5
Sundry income

#### **EXPENSES**

Salaries and benefits
Rent
Depreciation and amortization
General and administrative
Directors' remuneration
Audit fee and expenses

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

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## ZEMEN BANK S.C.

# STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

In Ethiopian Birr

	June 2009	Sept 2008
Cash flows from operating activities		
Operating loss before provision for taxation Adjustments for:	(9,141,926)	-
Depreciation and amortization	5,115,899	128,082
Interest income from foreign deposits	(44,215)	-
	(4,070,242)	128,082
(Increase) in items in course of collection	(4,853,697)	-
Decrease (increase) in other assets	4,600,092	(23,531,909)
(Increase) in loans and advances to customers	(186,759,803)	-
Increase in demand deposits	40,536,456	-
Increase in saving deposits	96,653,186	-
Increase in fixed deposits	140,658,154	-
Increase in margin held on letters of credit	72,690,172	-
Increase in other liabilities	10,184,208	11,360,758
Net cash inflow (outflow) from operating activities	169,638,526	(12,043,069)
Cash flows from investing activities		
Purchase of fixed assets	(9,215,702)	(15,275,470)
Investment in intangible assets	(3,871,095)	(7,542,137)
Interest income received on foreign deposits	44,215	-
Net cash received from (used in) investing activities	(13,042,582)	(22,817,607)
Cash flows from financing activities		
Proceeds from issue of share capital	5,992,662	93,665,013
Net cash received from (used in) financing activities	5,992,662	93,665,013
Net increase in cash and cash equivalents	162,588,606	58,804,337
Cash and cash equivalents, opening balance	58,804,337	
Cash and cash equivalents, closing balance	221,392,943	58,804,337

# 7EMEN BANK S C NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009 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 "licensing 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 Ermyas T. Amelga and Tecle 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.

The bank's operational strategy is based mainly on the provision of unique banking products with multichannel banking from one branch in Addis Ababa. The NBE's aforesaid letter authorizing the start of the bank's operations stated the following: "We need time to assess risks related to the products and verify that an appropriate risk management system has been put in place. In the meantime we understand that the bank is incurring substantial overhead cost that may negatively affect its short-term profitability. Thus, there appears a need to commence operation as soon as possible. To balance these two conflicting interests, the NBE hereby authorizes Zemen Bank to start its operation initially by accepting deposits and granting fully collateralized loans. Please be informed that the NBE will shortly communicate to the Bank its decisions as to the other banking products". These restrictions on the Zemen Bank's operations are still in place, but the directors are fully confident that the viability and profitability of the bank is not affected by this temporary restriction.

#### 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:

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FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

In Ethiopian Birr

Computer hardware	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.

Costs incurred for the acquisition of banking software and SWIFT implementation software are treated as intangible assets and amortize 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 doubtful debts

Provisions are recorded when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

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

FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009 In Ethiopian Birr

#### 4. CASH ON HAND

Local currency Foreign currency

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

Statutory reserve balance Payment and settlement account

#### 6. ITEMS IN COURSE OF COLLECTION FROM OTHER

Outward bills purchased Outward documentary bills purchased

#### 7. LOANS AND ADVANCES TO CUSTOMERS

Manufacturing Domestic trade and services Export Import Building and construction Personal Staff loans Less: Provision for doubtful debts and advances

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

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	June 2009	Sept 2008
	6,459,360	10,000
	1,175,060	-
	7,634,420	10,000
	45,000,000	-
	35,756,093	15,000,000
	80,756,093	15,000,000
BANKS	;	
	2,158,763	-
	2,694,934	-
	4,853,697	-
		,
	18,331,426	-
	46,039,653	-
	68,191,514	-
	23,223,592	-
	29,061,339	-
	2,116,625	-
	1,769,427	-
	(1,973,773)	
	186,759,803	-





FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

In Ethiopian Birr

. OTHER ASSETS	June 2009	Sept 2008
Debtors		
- shareholders receivables	-	380,000
- commission receivables	57,555	66,856
- eVentive LLC	-	1,321,317
- Access Capital S.C. (Note 8.1)	13,178,049	12,792,427
- Access Real Estate S.C.	-	25,000
- United System Integrated	-	39,584
- others	12,914	6,465
	13,248,518	14,631,649
Prepayments		
- office rent	2,846,584	6,278,611
- others	1,836,499	1,834,219
	4,683,083	8,112,830
Supplies stock		
- stationery	106,653	-
- bank slips	-	2,340
- check books	524,904	528,627
- uniforms	-	85,414
- sundry materials	21,330	-
<ul> <li>office and other equipment in stock</li> </ul>	147,938	171,049
- computers and accessories in stock	199,210	-
- revenue stamps	180	-
	1,000,215	787,430
	18,931,816	23,531,909

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

**8.1.1** Some subscribers erroneously deposited share subscriptions amounting to Birr 7,914,159 in an 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.

**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 557,571 is charged to Access Capital S.C. for the period from November 2006 up to 30 June 2009, for rent, security and building operations.

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

# ZEMEN BANK S.C. NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

OR THE PERIOD FROM 1 OCTOBER 2 In Ethiopian Birr

## 9. FIXED ASSETS

Balance 30.9.2009	Additions	Balance 30.6.2009
8,447,009 3,375,744 721,717 2,731,000	2,022,806 3,194,959 1,174,083 2,823,855	10,469,815 6,570,703 1,895,800 5,554,855
15,275,470	9,215,702	24,491,173
68,272 51,034 8,776 -	1,950,289 977,950 283,054 833,228	2,018,561 1,028,984 291,830 833,228
128,082 15,147,388	4,044,521	4,172,603 20,318,570
	30.9.2009 8,447,009 3,375,744 721,717 2,731,000 15,275,470 68,272 51,034 8,776 - 128,082	30.9.2009         8,447,009       2,022,806         3,375,744       3,194,959         721,717       1,174,083         2,731,000       2,823,855         15,275,470       9,215,702         68,272       1,950,289         51,034       977,950         8,776       283,054         -       833,228         128,082       4,044,521

#### **10. INFORMATION TECHNOLOGY**

**10.1** The bank has invested considerably in Information Technology as part of its distinctive business strategy of offering technology-based products and services. To implement its Information Technology strategy, the Bank's Board has given approval to a Technology Platform Recommendation Report (TPRR) that lays out a multi-year program for the acquisition of hardware and software. This multi-year program proposes an estimated cost of USD 4,241,183 (Birr 41,885,500) for the Bank's IT projects. Up to 30 June 2009, Birr 24,270,544 has been spent for hardware, software, and IT support costs.

The management and implementation of the Bank's IT services, including strategic advisory services in this area, has been outsourced to eVentive LLC. The initial relationship between the Bank and eVentive LLC was based on a Memorandum of Understanding (MOU) signed on 23 July 2008 between the main promoter of Zemen Bank S.C. and eVentive LLC. The Board of Directors accepted in principle the MOU by its resolution dated 3 April 2008. Subsequently, the Bank signed a more formal agreement to outsource its information technology services with Off-Shoring 2.0 Technology (the local affiliate of eVentive LLC) on April 1, 2009.

**10.2** 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. Birr 2,748,787 has been paid to Offshoring 2.0 Technology Services for the services provided during the nine months ended 30 June 2009.

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

# 26

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FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

In Ethiopian Birr

11. INTANGIBLE ASSETS	June 2009	Sept 2008
11.1 Capitalized expenditure		
The balance of Birr 5,365,743 represents pre-operational subscriptions and deposit interest income on share proceeds a		ommission on shar
Balance as at 30.9.08	5,365,743	5,365,743
Less: Amortization	(804,861)	-
	4,560,882	5,365,743
11.2 Computer software		
Cost	2,397,617	-
Less: Amortization	(179,821)	-
	2,217,796	-
11.3 SWIFT implementation software		
Cost	577,968	-
Less: Amortization	(86,695)	-
	491,273	-
11.4 Software under development *	3,071,903	2,176,394
	10,341,854	7,542,137

\* The amount of Birr 3,071,903 represents the payment to CR2 limited Ireland, APACS limited and Off-Shoring 2.0 Technology Services PLC, for Automatic Teller Machine (ATM) software, online and telephone banking software and onsite professional services.

		30.9.2008
12. OTHER LIABILITIES		
Payable to Ermyas T. Amelga (Note 12.1)	8,290,043	8,290,043
Tax payables	247,622	-
CPO payables	6,224,103	-
Exchange payable to NBE	1,229,776	-
Provident fund	1,124,884	-
Accruals	738,774	-
Subscribers payables (Note 12.2)	1,112,320	1,987,700
Other liabilities	1,465,671	1,083,015
Un-cleared effects I	1,111,773	-
	21,544,966	11,360,758

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

# **7EMEN BANK S.C.** NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009 In Ethiopian Birr

#### 12.1 Payable to Ermyas T. Amelga

During the period to 30 September 2008 Ermyas T. Amelga paid pre Ьч costs totalling Birr 12,290,043 at 30 June 2008 on behalf of Zemen Bank S.C. The Bank at its 1st Board meeting dated 9 January 2008 approved the costs incurred by Ermyas T. Amelga up to 31 December 2007, amounting to Birr 6,709,979 and 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.

Expenses and advances paid by Ermyas T. Amelga Payment to Ermyas T. Amelga

#### 12.2 Subscribers payable

The subscribers' payable of Birr 1,112,320 relates to subscribers who had not finalized the legal requirements of the registration process.

#### 13. SHARE CAPITAL

The Zemen Bank S.C. has an authorized capital of Birr 300,000,000 comprising 300,000 ordinary shares of Birr 1,000 each. Out of this, the bank's subscribed capital was Birr 149,576,000 which is divided into 149,576 ordinary registered shares with a par value of Birr 1,000 each. The paid-up capital of the bank as at 30 June 2009 amounted to Birr 99,657,675.

#### **14. SERVICE INCOME**

Service charges - foreign Service charges - local

#### **15. SUNDRY INCOME**

Loan processing fee Overdraft protection fee Balance maintenance fee SWIFT charge Documentation fee Miscellaneous

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_	June 2009		Sept 2008	3
e-o	perating expendit	ure	and other	relate
ant	C The Paper at	ite	1 ct Doord n	nontin

12,290,043	12,290,043
(4,000,000)	(4,000,000)
8,290,043	8,290,043

7,336,764 9,780	-
7,346,544	-
2,871,933	-
13,710	-
72,050	-
4,400	-
1,348	-
27,187	-
2,990,628	-



FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

In Ethiopian Birr

16. SALARIES AND BENEFITS	June 2009	Sept 2008
Salaries	3,781,150	-
Representation allowances	225,741	-
Overtime	15,248	-
Transport allowances	295,391	-
Mobile telephone allowances	51,872	-
Provident fund	562,260	-
Medical expense	90,900	-
Training and education	25,447	-
Laundry allowance	28,900 -	
Uniforms	117,256	-
Leave pay	298,038	-
	5,492,203	-

#### **17. GENERAL AND ADMINISTRATIVE EXPENSES**

Security and janitorial services	385,478	-
Telephone, fax and internet	451,623	-
Stationery and printing	358,636	-
Advertisements	857,767	-
License and registration fee	511,113	-
Maintenance and repair	282,263	-
Inauguration expense	573,793	-
Utilities	146,010	-
Temporary ATM card printing	303,633	-
IT service provider fee	2,748,787	-
SWIFT and other charges	199,796	-
Consultancy	254,833	-
Fuel and lubricants	118,675	-
Insurance	90,256	-
Sundries	407,189	-
Entertainment	41,679	-
Donation	30,000	-
	7,761,531	-

#### **18. CONTINGENT AND MEMORANDUM ITEMS**

18.1 The Bank requested and obtained an independent legal opinion regarding the correct interpretation and application of certain contract documents made between Access Bank S.C. (now Zemen Bank S.C.) and Access

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

# **7EMEN BANK S.C.** NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009

In Ethiopian Birr

Capital Services S.C. for a Consultancy Agreement and a Custodian Agreement. Accordingly, it is considered by the Board of Directors that an amount of Birr 4,487,280 commission claimed by Access Capital S.C. is not payable by the Bank. However, the claim of Birr 4,487,280 has not been formally waived by Access Capital S.C. but this claim is not included in the actual liabilities of the bank.

#### 18.2 Guarantees issued to customers

#### 18.3 Commitments

Letters of credit Less: margins held on letters of credit

Inward bills for collection

Overdrafts

Loans

#### **19. EMPLOYEE BENEFIT SCHEMES**

The Bank contributes 15% of basic salary while employees contribute 7%. All other employee benefits are in accordance with the Labour Proclamation No. 377/2003 and Amendment No. 494/2006.

#### 20. RELATED PARTY TRANSACTIONS

The main promoter concluded a "Memorandum of Understanding" with eVentive LLC on 23 July 2007 for providing IT services to the Bank. The CEO of eVentive LLC Yemiru Chanyalew was approved as a member of the Board on 22 January 2008 and the Bank secured its license in June, 2008. Even though the signing of a formal contract with eVentive was under process the Board raised the issue of conflict of interest on the membership of Yemiru Chanyalew who subsequently submitted his resignation to the Board. The resignation of Yemiru Chanyalew was accepted by the Board on 19 December 2008.

A consultancy agreement signed between Access Capital S.C. and Access Bank (now Zemen Bank) on 15 March 2007 i.e. when the Bank was under formation is not recognized by Zemen Bank Board. The purpose of the agreement was for facilitating the sale of shares, and to advise and assist in managing in general the sale of shares offered by the Bank.

#### **Related party** eVentive LLC

Description of transaction

- Amount paid for IT consultancy services as per Memorandum of Understanding:-- For the pre-operating period ending 30 September 2008

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810,100	-
82,131,471	-
(72,690,168)	-
9,441,303	-
236,605	-
9,677,908	-
Nil	Nil
74,052,973	-

2,216,760

31

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	ANCIAL STATEMENTS NOD FROM 1 OCTOBER 2008 TO 30 JUNE 2009 In Ethiopian Birr	
	- For the nine months ending 30 June 2009, payments made before eVentive has ceased to be related party	1,137,110
Access Capital S.C.	- Consultancy for the bank's share sales	
	<ul> <li>management (in dispute) which occurred in the pre-operating period ending 30 September 2008</li> <li>Cost sharing of rent, security etc:-</li> <li>For the period ending 30 September 2008</li> </ul>	4,487,280 188,199
	• For the nine months ending 30 June 2009	369,372
21. TAXATION Net loss Add: Donation and contribution Entertainment		(9,141,926) 30,000 41,679
Loss carry forward for tax purposes		(9,070,247)

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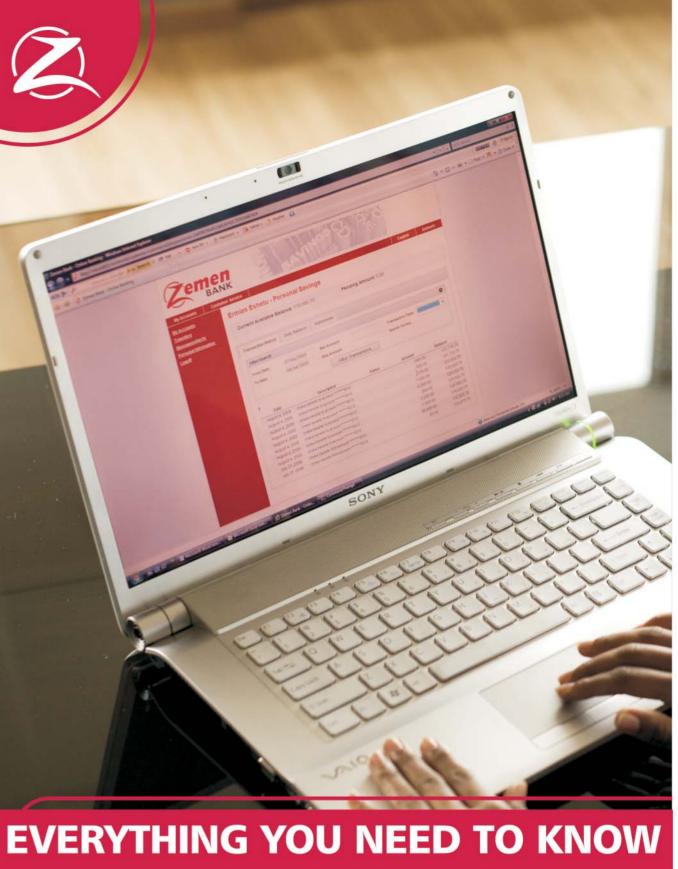
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Access your account and cash with an ATM card.



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