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BANK OF ABYSSINIA S.C.

Annual Report

For the Year Ended
June 30, 2014
Addis Ababa,
Ethiopia

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BANK OF ABYSSINIA S.C

Vision

As "Abyssinia" is the ancient name of our great nation and that of the pioneer bank of the land, the vision of the Bank of Abyssinia (BoA) is to live up to this legacy through continuous innovation and provision of world-class banking services.

Mission

The mission of the BoA is to provide a full-fledged domestic and international banking services through qualified and motivated employees, utilization of modern technology and through socially and ecologically responsible practices as well as ensuring profitability and growth.

Values

We at the BoA are guided by the following values:

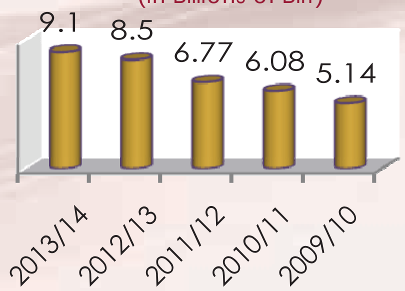
- Integrity, Honesty and Loyalty
- Efficient Customer Service
- Commitment
- Equal Employment Opportunity
- Employee Satisfaction
- Team Spirit
- Good Corporate Governance
- Social Responsibility
- Innovation
- Fair Return to Shareholders

my Choice

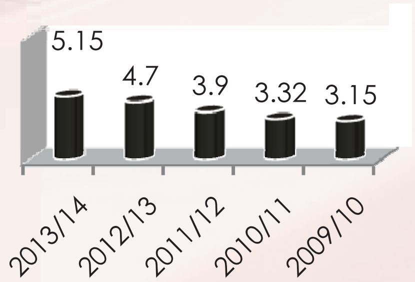
Operational Highlights

Graphical Presentation (FY 2009/10 – 2013/14)

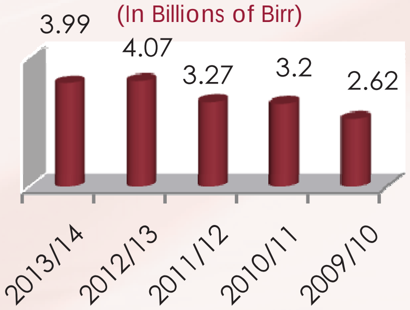
Growth in Total Deposits
(In Billions of Birr)



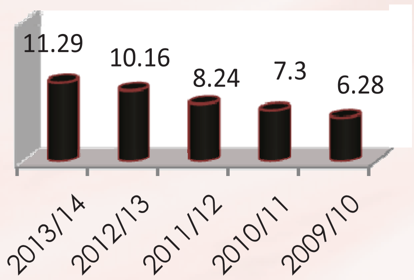
Growth in Total Loans
(In Billions of Birr)



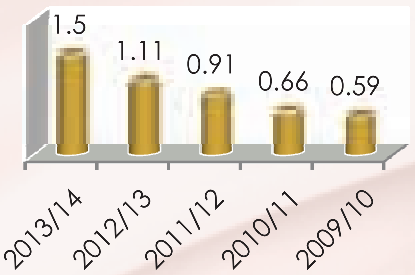
Growth in FCY
(In Billions of Birr)



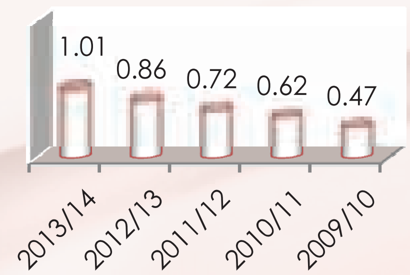
Growth in Total Assets
(In Billions of Birr)



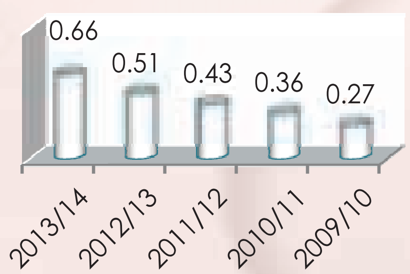
Growth in Total Capital
(In Billions of Birr)



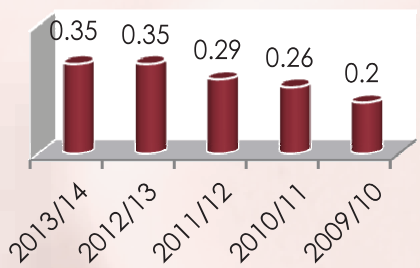
Growth in Total Income
(In Billions of Birr)



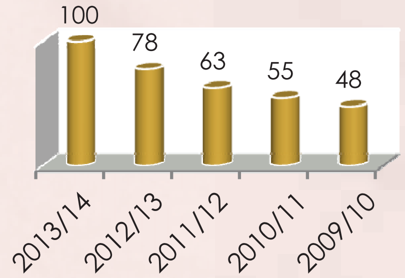
Growth in Total Expense
(In Billions of Birr)



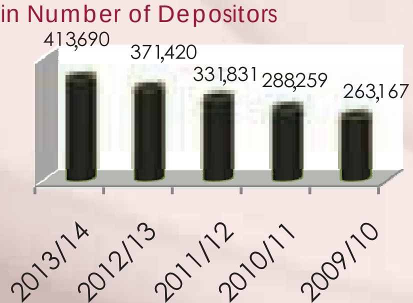
Gross Profit Before Tax
(In Billions of Birr)



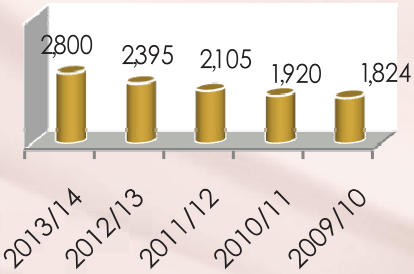
Growth in Number of Branches



Growth in Number of Depositors



Growth in Staff Strength



Board of Directors

Ato Andualem Demesachew
Board Director

Eng. Awoke Wondimeneh
Board Director

Dr. Solomon Barnabas
Board Director (Rep. FAB Plc)

Ato Dagnachew Mehari
Board Director

Ato Mehari Alemayehu
Board Chairperson

Ato Habtu Woldekiros
Board Director

W/ro Seblewongel Teklu
Board Director

Ato Tezera Wodajo
Board Director

Prof. Ayenew Ejigou
Board Director

Message of the Board Chairman

Honorable Shareholders!

On behalf of the Board of Directors and myself, I am honored to present the 18th Annual Report of the Board of Directors of the Bank of Abyssinia S.C (BoA) on the business and operations of the Bank together with the audited accounts for the year ended 30 June, 2014.

As you may know, the World Economic Outlook (WEO) update released in January 2014 put forward that global activity was strengthened during the second half of 2013. It also stated that the economy is expected to get improved further in 2014 - 2015, largely on account of recovery in the advanced economies. Global growth is now projected to rise from 3 percent in 2013 to 3.7 percent in 2014 and also to 3.9 percent in 2015. In many emerging markets and developing economies, stronger external demand from advanced economies will lift growth, although domestic weaknesses remain a concern.

Overall, the growth in emerging markets and developing economies is expected to rise from 4.7 % in 2013 to 5.1 percent in 2014 and also to 5.4 percent in 2015. Similarly, the growth rate of Sub-Saharan Africa is projected to go up from 5.1% in 2013 to 6.1% in 2014. To this end, the Ethiopian economy continues to perform well. For instance, inflation has been brought down to a single digit owing to tight monetary policy. The economic growth as indicated on the GTP for 2014/15 is estimated to be 11.4%.

As a financial intermediary, the role of Banks in catalyzing the economic growth is significant. They are also the beneficiaries of the emerging opportunities and global economy recovery. The Bank of Abyssinia, as one of the players, has contributed its part and also takes the benefit from the national development endeavor.

Meanwhile, in the fiscal year 2013/14, BoA's total asset reached Birr 11.3 billion. Its total capital amounts to Birr 1.5 billion of which Birr 924 million is paid up capital. The total deposit of the Bank also reached Birr 9.10 billion growing by 7.1% as compared to the preceding year's deposit balance. Similarly, the total outstanding loans of the Bank stood at Birr 5.15 billion registering a 9.6% upsurge from the previous year's balance. The Bank secured a total income of Birr 1.01 billion, but also had a total expense of Birr 0.66 billion. The non-performing loans position of the Bank has been maintained at 3.37%, which is below 5% standard set by the regulatory authority. Thus, the gross profit obtained before tax is Birr 351.5 million alike the preceding fiscal year.

In addition, modern banking technology, which is the product of the core banking solution along with card, and mobile banking is implemented where as the implementation of E-banking and Agent banking is under process with the concerted efforts of the Board of Directors, the Top Management and all work units in a bid to expand the Bank's service delivery channel.

Honorable Shareholders!

Cognizant of the necessity to think and act strategically, the BoA has made it a tradition that it guides its operations through a strategic plan in order to achieve greater profitability and operational effectiveness. To cope up with the dynamic environment and advance as internationally competing and leading Bank in the nation, BoA acknowledges its situation and concurs with the need to transform and make a paradigm shift by adjusting its business model as we look ahead in the coming 2014/15 financial year.

In the end, I would like to express my sincere gratitude to all honorable stakeholders for their encouragement, our respected customers, Top-Level Management, staffs of the Bank and the National Bank of Ethiopia (NBE) for their respective contributions to the growth of the Bank.

Before finishing, I shall convey my sincere thanks to my fellow members of the Board of Directors for their commitment and dedication in assisting the Management throughout the fiscal year under review.

Thank you all

Mehari Alemayehu

Members of Senior Management

Ato Mulugeta Asmare
Acting President

Ato Sefi-Alem Liben
Vice-President
Resources

Ato Aklilu Wubet
Vice-President
Corporate Services

Ato Abdulfetah Nuru
Director, E-Banking
Department and PMO

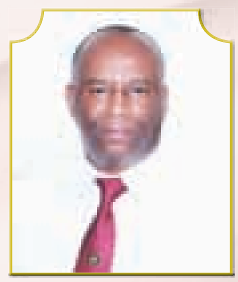
Ato Abreham Gebeyehu
Director-Corporate Planning &
Marketing Department

Ato Anteneh Sebsebe
Director-Finance
& Accounts Department

Ato Belayneh H/Meskel
Director-Procurement & Prop-
erty Administration Department

Ato Dagne Kitaba
Director-Internal Audit
Department

Ato Daniel G/Medhin
Director-Credit Appraisal &
Assessment Department



Ato Demisew Abebe
Director-Legal Service
Department

Ato Desta Bekalo
Director, Risk Manage-
ment Department

Ato Getahun Arega
Director-Engineering Services
Department

Ato Gossaye Yohannes
Director-Credit Analysis & R/S
Mgt. Department

Ato Mohammed Idris
Director, HR
Management Department

Ato Tefera Tolossa
Director-Information Systems
Department

Ato Tesfaye Abebe
Director-Credit Review,
Workout & Portfolio Mgt. Dpt

W/ro Tsege Ayalew
Director-International Banking
Department

Ato Yohannes Argaw
Director-Retail Banking
Operations Department

Statement of the Acting President

On behalf of the Management of Bank of Abyssinia S.C. (BoA) and on my own behalf, I am honored to present the report on the operational performance of the Bank for the financial year 2013/14 ended June 30, 2014.

Taking the country's business and economic environment, the Bank's overall business direction and the recent external developments in the economic environment, the financial year 2013/14 saw the Ethiopian economy achieve a real growth in various sectors.

In an effort to combat inflation, the country put into practice a tight monetary policy. In addition, various policy measures were also taken to hold down price which include strengthening domestic resources and reducing domestic borrowing, among others.

Thus, in the year 2014/15 the overall indicators of the country point that Ethiopia heads to continue towards achieving the Growth and Transformation Plan (GTP) which is expected to be due in June 2015. Related to this, the economic prospect of the country is promising in the subsequent year/s to come. Besides, a number of mammoth projects in pipeline would have their wider role in this regard upon completion.

Overall, the long-run projections indicate that Ethiopia could potentially join middle-income nations by 2025 if the historical growth momentum can be sustained, according to the Ministry of Finance and Economic Development (MoFED). As the experiences of other high performing countries (including East Asia) demonstrate, the development of a strong and vibrant private sector would eventually be needed to sustain high growth rate.

The financial sector on its part has long been challenging for banks as doing business becomes tough especially due to the extra effort and cost required to mobilize deposit and meet the credit demands of customers, shortage of foreign currency related to slack in credit and others linked to the export market of the world.

Nevertheless, the Bank during its over 18 years of existence has continuously been expanding and growing up in its scale of operation in almost all measuring parameters. Accordingly, as at June 30, 2014, the Bank's total asset position stood at Birr 11.3 billion and its total authorized capital level picked up to Birr 1.5 billion. The Bank's scale of operation measured in its deposit position, size of loans and advances, foreign currency mobilization and number of deposit account holders reached Birr 9.1 billion, Birr 5.2 billion, Birr 3.99 billion and 413,690, respectively. The gross profit before tax is Birr 351.5 million which is almost equivalent to that of the previous fiscal year.

The BoA has made great strides in enhancing its competitive edge by introducing wide-ranging banking products and delivering quality services through its 2,800 staffs and 100 branches as at June 30, 2014 spread throughout the nation and thereby boosting its market share. Its correspondent relationship with 12 international banks and 6 Money Transfer companies has also enabled it to provide efficient international banking services to its customers. In addition, the BoA's efficiency in international banking operations has further been bolstered by its membership in SWIFT (Society for Worldwide Inter-bank Financial Telecommunications) technology facilitating swift communication with correspondent banks.

The Bank's overall operation has been supported with Core Banking Solution which was implemented before two years. The Bank has commenced Card Banking System (ATM and PoS) & Mobile Banking with its 50 ATM machines installed in various locations and it is also on the process to start E-banking and Agent Banking services which are believed to boost the Bank's effort to scale up its outlet and proximity to reach to the existing and prospective customers.

Before concluding my statement, I am glad to unveil the BoA's plan for the coming years that it is undertaking preparations to set its five-year strategic and organizational transformation plan which is belived instrumental in expediting its competitiveness in the banking industry.

At last, on behalf of the Executive Management of the Bank, committed employees and myself I would like to extend my earnest gratitude to NBE for all the guidance and support; the Bank's esteemed customers, shareholders, employees and others for their conviction in our Bank's every steps and milestones went through.

Members of the Board of Directors also deserve special gratitude for the commendable effort they have exerted in assisting the Management within the scope of their duties and responsibilities.

Thank you,

Mulugeta Asmare

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of the Bank of Abyssinia S.C. (BoA) hereby presents the audited financial statements of the Bank for the fiscal year that ended on June 30, 2014 to the General Assembly of the Bank's shareholders.

Accordingly, the highlights of the major performances of the Bank during the year under review are summarized in this report.

1. Operational Performance

1.1 Deposit

The deposit mobilization efforts of the Bank showed encouraging results in the fiscal year 2013/14 and thus the total amount of deposit mobilized by the Bank by the end of June 2014 reached Birr 9.1 billion, registering an absolute growth of Birr 600 million or 7.1% from the total deposit balance of the previous fiscal year. Deposit growth observed in savings and time with Birr 505 million (8.6%) and Birr 302 million (55.7%), respectively while demand deposit declined by Birr 206 million (10%) as compared to the preceding fiscal year.

Besides, the number of deposit account holders in the Bank grew by 42,270 (11.4%) when compared to the preceding year position of 371,420 and reached 413,690.

Table 1. Outstanding Deposits

(In Millions of Birr)

Type of Deposit	Jun -14	Jun -13	Growth	
			Absolute	% age
Demand	1,852	2,058	(206)	(10.0)
Savings	6,401	5,896	505	8.6
Time	843	541	302	55.7
Total	9,096	8,496	600	7.1

Fig. 1.Total Deposits by Type

(In Millions of Birr)

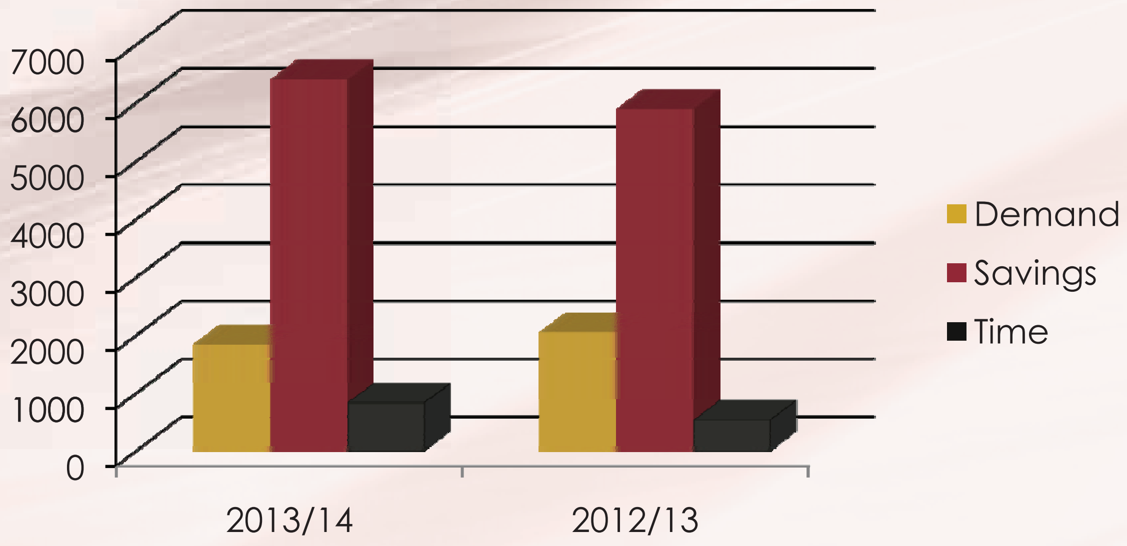
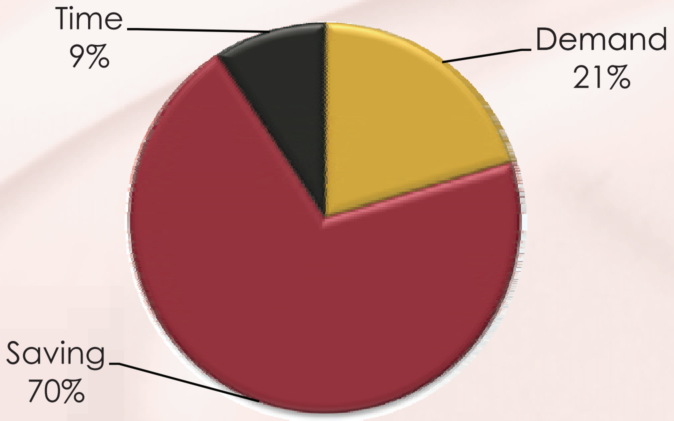


Fig. 2. Percentage Share of Deposits



1.2 Loans and Advances

The total outstanding loans and advances of the Bank in the fiscal year 2013/14 stood at Birr 5.15 billion exceeding last fiscal year's balance by Birr 451 million (9.6%). The growth in total outstanding loans from the preceding year is primarily from advances 109.4% and overdraft 36.3% as per their respective proportion. However, term loan recorded a negative amount of Birr 28 million (0.7%) as compared to the previous fiscal year's position.

Table 2. Outstanding Loans and Advances

(In Millions of Birr)

Types of Loans	Jun -14	Jun -13	Growth	
			Absolute	%
Term loan	3,870	3,898	(28)	(0.7)
Overdraft	747	548	199	36.3
Advances	536	256	280	109.4
Total	5,153	4,702	451	9.6

Fig.3. Total Loans and Advances by Type

(In Millions of Birr)

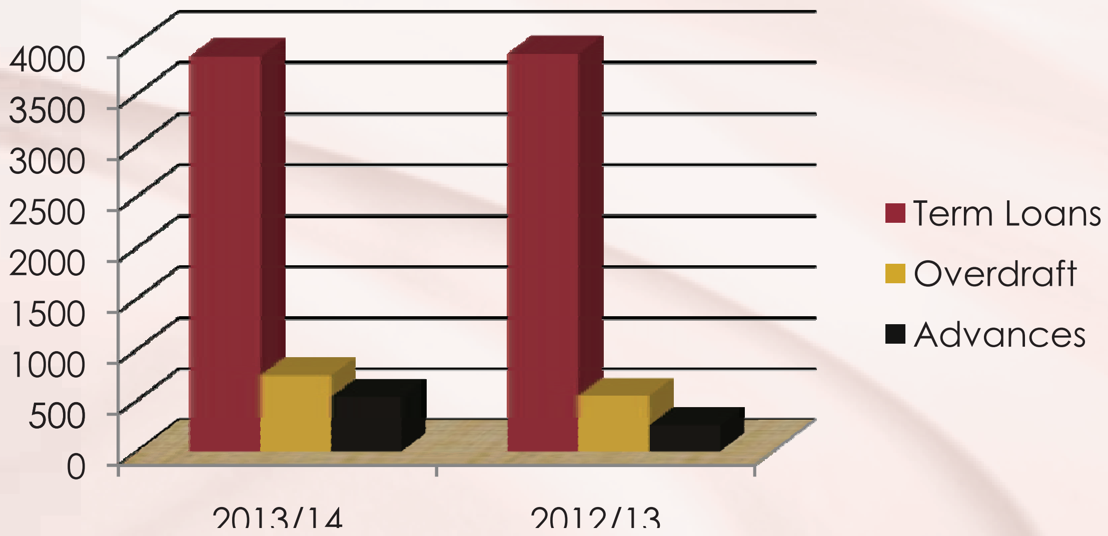
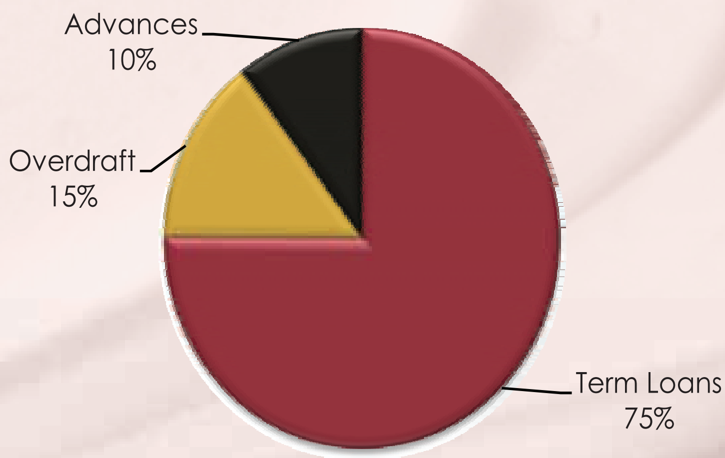


Fig.4. Percentage Share of Total Loans and Advances



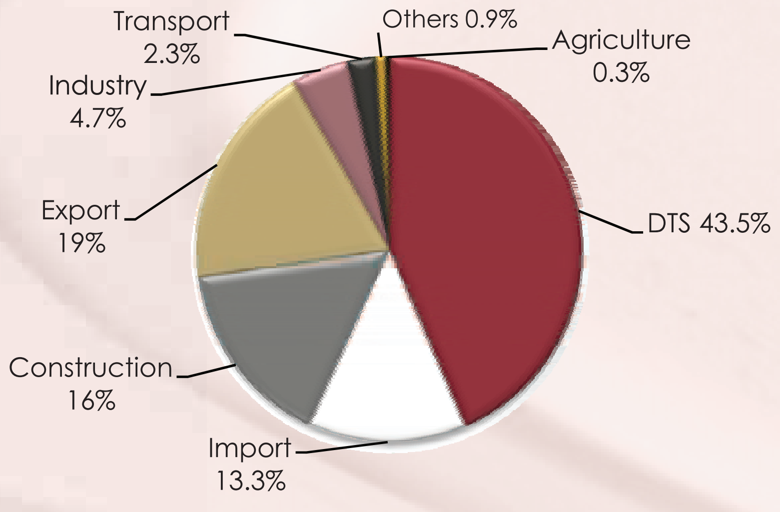
The distribution of loans and advances by economic sectors shows that domestic trade took the lion's share of 43.5%, followed by export, construction, and import with 19%, 15.9% and 13.3%, respectively as at the end of the fiscal year under review.

Table.3. Loans and Advances by Economic Sector

(In Millions of Birr)

Sector	Jun -14		Jun -13	Growth	
	Amount	% Share		Absolute	% age
Domestic trade	2,244	43.5	2,194	50	2.3
Import	685	13.3	836	(151)	(18)
Construction	819	15.9	717	102	14.2
Export	981	19.0	544	437	80.5
Industry	244	4.7	222	22	10.0
Transport	120	2.3	135	(15)	(11)
Others	45	0.9	46	(1)	(2)
Agriculture	15	0.3	8	7	87.0
Total	5,153	100.0	4,702	451	9.6

Fig.5. Percentage Share by Economic Sector



SOME OF THE BOA-FINANCED PROJECTS

Abahawa Trading Plc

Adem Kedir Coffee Exports
(Hora Trading)

dVentus Wind Technologies Plc

MAG International Plc

Timex Trading Plc

1.3 International Banking Services

During the stated period, the source of foreign currency earnings from incoming transfer, international money transfer and dealings improved substantially. Nontheless, earnings from export, cash letter services and interest on correspondent banks declined due to less export document negotiation and lower balance with our correspondent banks, among others.

In sum, the foreign currency mobilized as at the end of June 2014 amounts to Birr 3.99 billion fell short by Birr 71.2 million or 1.75% than the foreign currency mobilized in the fiscal year 2012/13.

The Bank is expanding its correspondent relationship by signing new service agreement with KAAH and prospective follow up is on going with MoneyGram and EzRemit Money Transfer companies.

2. Financial Performance

2.1 Income

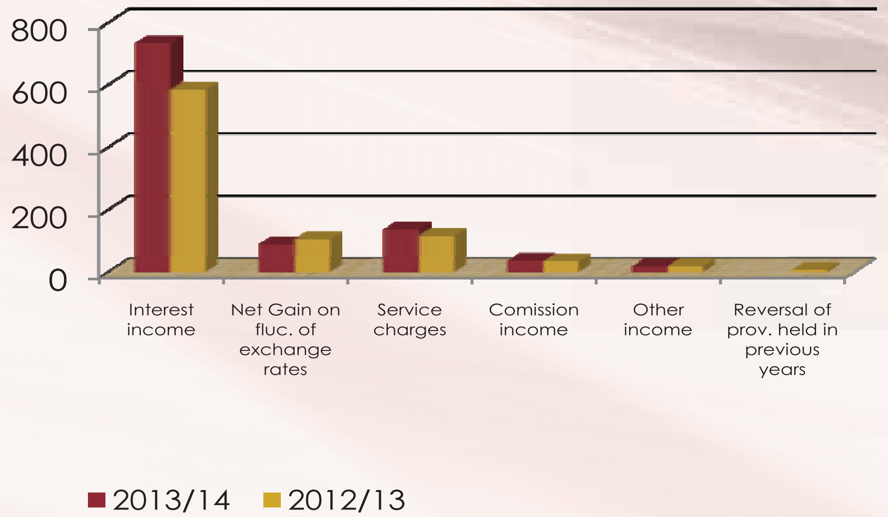
The total income the Bank earned at the end of June 2014 was Birr 1.01 billion which surpasses that of last year by Birr 148 million or 17.2%. The percentage share of interest income, service charge and commission income items took the highest proportion with 72.5%, 13.4% and 3.5%, respectively.

Table 4. Income by Major Categories

Income Categories	2013/14		2012/13	
	Amount	% Share	Amount	% Share
Interest income	734,201,655	72.5	583,509,267	67.5
Gain on fluc. of exchange rates	89,039,808	8.8	105,166,636	12.2
Service charges	136,185,903	13.4	115,562,461	13.4
Commission income	35,918,351	3.5	34,470,079	4.0
Other income	17,553,167	1.7	19,318,762	2.2
Provision no longer required			6,500,000	0.8
Total	1,012,898,884	100	864,527,205	100

Fig.6. Operating Income

(In Millions of Birr)



2.2 Expenses

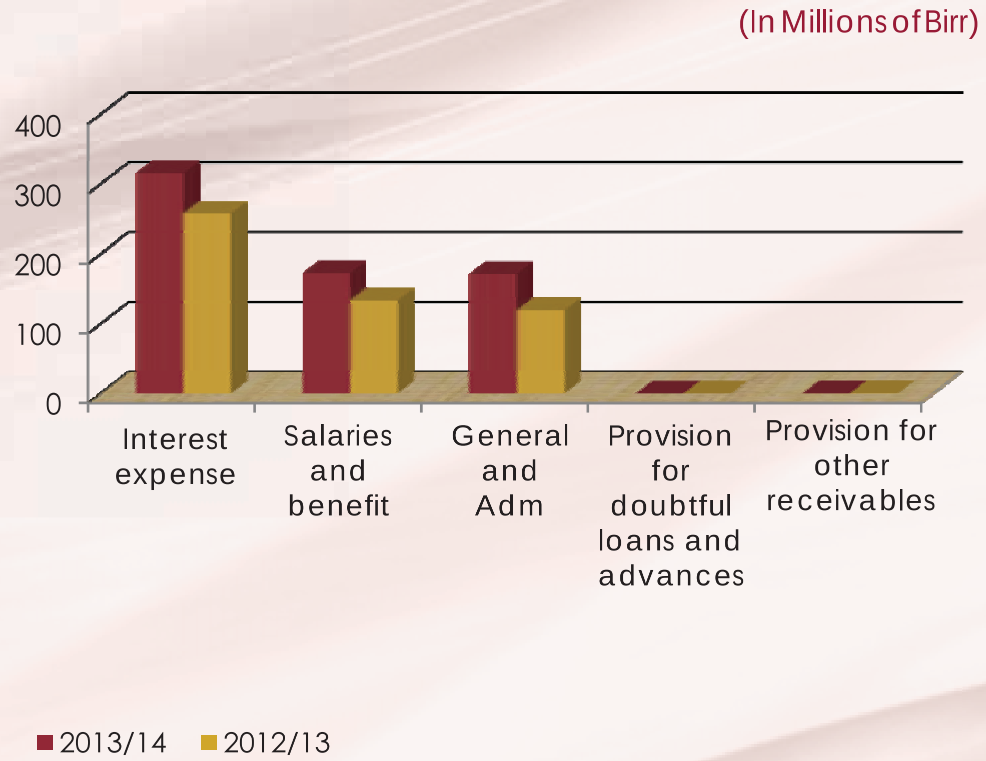
The total expense at the end of the fiscal year 2013/14 stood at Birr 669.4 million, with an absolute variation of Birr 148.4 million or 28.9% from the total expense incurred in 2012/13. Interest expense, salaries and benefits and general and administrative expenses surpassed the balance of the preceding fiscal year by 22.4%, 29% and 43.2%, respectively.

The growth in all expense items is attributed to the expansion in deposit base and branch network activity related to salaries and benefit, and general expense.

Table 5. Expense by Major Categories

Expense Categories	2013/14	2012/13	Growth	
			Absolute	% age
Interest expense	316,109,832	258,228,327	57,881,505	22.4
Salaries and benefits	173,160,744	134,279,529	38,881,216	29.0
General and adm.	171,964,241	120,102,190	51,862,052	43.2
Provision for doubtful loans and advances	-	-	-	-
Provision for other receivables	175,325	449,630	(274,305)	(61)
Total	661,410,142	513,059,675	148,350,467	28.9

Fig.7. Operating Expenses



2.3 Profitability

The BoA's gross profit before tax records Birr 351.5 million at the end of June 30, 2014 which is nearly the same as that of the preceding period.

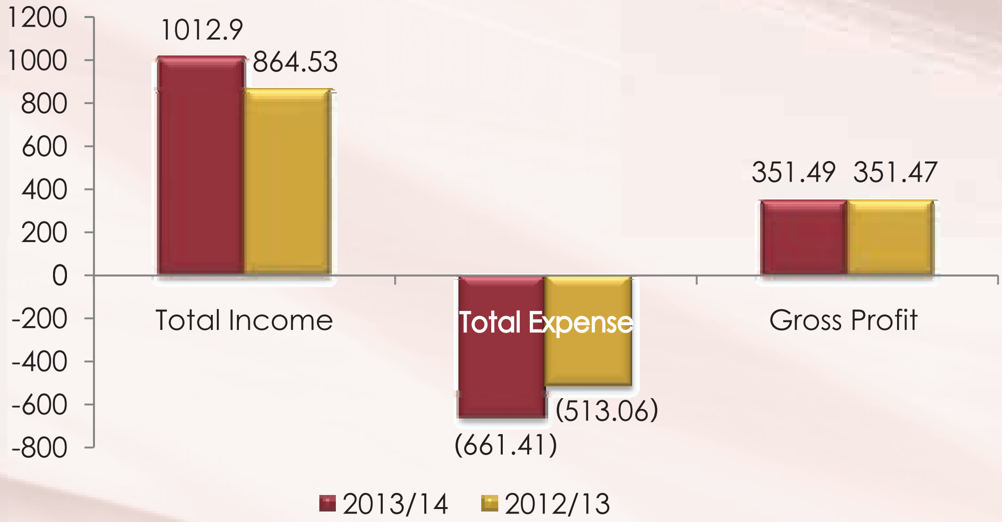
Table 6. Performance in Gross Profit before Tax

(In Thousands of Birr)

Item	2013/14	2012/13	Growth	
			Absolute	% age
Total income	1,012,899	864,527	148,372	17.2
Total expense	661,410	513,060	148,350	28.9
Gross profit before tax	351,489	351,467	22	0.01

Fig.8. Income, Expense and Gross Profit Comparison

(In Millions of Birr)



2.4 The Bank's Equity

The equity of the BoA at the end of the fiscal year under review reached Birr 1,528.96 million registering an absolute growth of Birr 421.32 million (38.04%) as compared to that of 2012/13.

Likewise, the paid-up capital of the Bank reached Birr 923.97 million with an absolute growth of Birr 346.94 million (60.13%) from last year's balance. Also in the just-ended fiscal year the share premium, legal reserve and retained earnings of the Bank grew in their order by Birr 2.24 million (79.15%), Birr 67.68 million (22.28%) and Birr 4.46 million (2.25%) when compared to the previous fiscal year and reached Birr 5.07 million, Birr 371.42 million and Birr 202.58 million, respectively.

Table 7. The Bank's Equity

(In Millions of Birr)

Capital Category	2013/14		2012/13		Growth	
	Amount (A)	% Share	Amount (B)	% Share	Absolute (A-B)	% age
Paid-up capital	923.97	60.43	577.03	52.1	346.94	60.13
Share premium	5.07	0.33	2.83	0.3	2.24	79.15
Legal reserve	371.42	24.29	303.74	27.4	67.67	22.28
Special reserve	25.92	1.70	25.92	2.3	-	-
Retained earnings	202.58	13.25	198.12	17.9	4.46	2.25
Total	1,528.96	100.00	1,107.64	100.0	421.32	38.04

2.5 Liquidity

The liquidity position of the Bank, measured as liquid asset to its net current liabilities, stood at 30.19% in the fiscal year 2013/14. And its capital adequacy measured in terms of capital-to-risk-weighted assets indicated 16.97%, which is well above the 8% minimum requirement set by the supervisory authority.

3. Administrative and Other Issues

3.1 Human Resource

The total staff of the Bank by the end of June 2014 reached 2,800 indicating a rise by 695 employees from that of the previous year. In addition, with a view to beef up the human resource capacity of the Bank, a number of trainings were offered to 1,853 employees on different banking operation areas; while some 568 employees were promoted to higher positions.

3.2 Expansion of Branches

The number of branches of the Bank during the period ended June 30, 2014 reached 100 growing by 22 from the preceding fiscal year; of which 13 are opened here in the capital. The branches that went operational in the fiscal year 2013/14 are listed below.

Branches	
City	Outlying
Meskel Flower	Shire Endaselassie
Awtobis Tera	Bure
Saris	Jinka
Arat Kilo	Debre Birhan
Kara Kore	Tana
Wuha Limat	Woldiya
Gerji Giorgis	Sebeta
Mesalemiya	Dangila
Meri	Assosa
Akaki Kality	
Lideta	
Ayat	
Balcha	

Geographically, the Bank has expanded its branch network to 52 in Addis Ababa, while the rest are located in different regional towns.

SHIRE ENDASELASSIE BRANCH

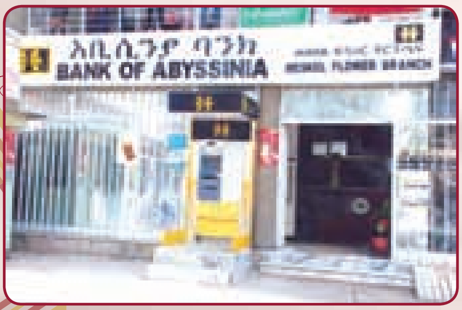

JINKA BRANCH

DEBRE BIRHAN BRANCH


AWTOBIS TERA BRANCH

WUHA LIMAT BRANCH

DANGLA BRANCH



MESKEL FLOWER BRANCH

SARIS BRANCH


ASSOSA BRANCH

3.3 Business Development

The BoA has continued its marketing activities in enhanced manner and thus during the stated period a number of renowned international Money Transfer companies were contacted in order to establish business relationship. To this end, the Bank has forged correspondent links with two new Money Transfer companies with the aim of boosting its foreign currency mobilization and international banking services. While business relationship with MoneyGram and EzRemit Money Transfer companies is well in progress.

Regarding product development works, a business plan has been approved to incorporate interest-free banking service.

Apart from this, aggressive promotional works have been carried out via different communication media to build the Bank's image as well as introduce its various services to the public.

3.4 Information Systems

During the reported period, the Bank has witnessed tremendous progress following the implementation of the core banking system which enabled it to deliver convenient and efficient services to its honored customers. Besides, the recently launched card/ ATM and Mobile Banking as well as PoS services are also belived to further elevate the performance of the Bank as well as its image in the years to come.

Furthermore, the Bank has finalized preparations to commence E-Banking and Agency Banking services in the coming fiscal year. To this effect, various trainings were offered to concerned staffs of the Bank to enable them become familiar with the upcoming new technologies and services.

4. The BoA's Future Plan

Currently, the banking ecosystem globally has undergone unprecedented changes which require Banks to shift their landscape as well as revisit their existing business systems/model and thus look for ways of repositioning themselves within the changing business environment. The external environment within the country itself is also varying following the move to be part of the global financial system and rise in modern technology application, among others. Accordingly, the Banking system in Ethiopia has to adjust itself to the changing global and local external environment so as to compete and ultimately emerge victorious among other global operators.

Cognizant of the foregoing facts, the BoA envisages hiring an international consultancy firm with a robust exposure on international, regional and national financial sector and which is expected to come up with innovative strategies to address challenges as well as optimally make use of opportunities.

Hence, the Bank is presently warming itself to embark upon this grand endeavor, which demands the combined efforts of all stakeholders, i.e. the Board of Directors, Executive Management, core and support units to address and achieve the key strategic issues, objectives and strategies that will be outlined in the next strategic plan document with special emphasis on customer-focused service, human resource management, marketing, financial resource mobilization and allocation, maintaining the quality of its assets and enhancing physical facilities activity.

Apart from these, introducing new products; finalizing E-Banking and Agent Banking services; expanding branch network and raising the Bank's paid-up capital while giving emphasis to controllable expenses shall not be overlooked in sustaining the growth and profit of the Bank.

5. Appropriation of Retained Earnings

During the fiscal year 2013/14, the BoA secured a net profit of Birr 270.71 million after appropriate deductions from the gross profit of the just-ended fiscal year.

The Board of Director's, therefore, recommends that Birr 202.58 million be distributed to the shareholders, proportionate to their respective paid-up shares after deducting the legal reserve of Birr 67.68 million and the share of the Board of Directors, which is Birr 450, 000.

6. Vote of Thanks

Finally, the BoA's Board of Directors and the Executive Management would like to seize this opportunity and express their gratitude to the highly honored customers of the Bank, shareholders, employees and the regulatory authority for their unreserved support in helping the Bank to attain this result.

MEMBERS OF THE BOARD OF DIRECTORS

1.	Ato Mehari Alemayehu	Chairperson
2.	Ato Andualem Demesachew	Member
3.	Eng. Awoke Wondimeneh	Member
4.	Prof. Ayenew Ejigou	Member
5.	Ato Dagnachew Mehari	Member
6.	Ato Habtu Woldekiros	Member
7.	W/ro Seblewongel Teklu	Member
8.	Dr. Solomon Barnabas	Member (Representing FAB Plc.)
9.	Ato Tezera Wodajo	Member

Mehari Alemayehu

Chairman of Board of Directors

Mulugeta Asmare

A/ President

INTERNATIONAL MONEY TRANSFER COMPANIES WORKING WITH THE BOA

WESTERN UNION

Dahabshill

XPRESS MONEY

TRANSFAST

Ria

Turbo Cash

Auditor's Report

ጌታቸው ካሣዬ እና ጓዶቹ
Getachew Kassaye & Co.
Chartered Certified Accountants

Tel. 011 551 37 11 011 551 17 08
011 551 74 47 011 551 72 76
Fax. 251 11 551 02 20

P.O.Box 1432
ADDIS ABABA
ETHIOPIA

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

1. We have audited the accompanying financial statement of Bank of Abyssinia Share Company (hereinafter referred to as the Bank) for the year ended June 30, 2014, set out on pages 3 to 20, which have been prepared under the accounting policies set out on page 7 to 10.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes, designing, implementation 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, making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures with financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

OPINION

5. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at June 30, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
6. We have no comments to make on the report of the Board of Directors relating to the financial matters and pursuant to article 375(2) of the Commercial Code of Ethiopia of 1960; we recommend that the above mentioned financial statements be approved.

Addis Ababa
September 30, 2014

GETACHEW KASSAYE & CO.
CHARTERED CERTIFIED ACCOUNTANTS

BANK OF ABYSSINIA SHARE COMPANY
BALANCE SHEET
AS AT JUNE 30, 2014

	NOTES	Birr	Birr	2013 Birr
ASSETS				
Cash and balances with other banks				
Cash on hand			1,240,796,796	831,143,392
Deposits with local commercial banks			-	4,076,993
Deposits with foreign banks	2f		494,235,514	371,416,051
Reserve account with National Bank of Ethiopia			454,607,347	424,607,347
Other accounts with National Bank of Ethiopia			556,563,444	339,965,128
			2,746,203,101	1,971,208,911
Items in course of collection from other banks		163,966,393		95,647,811
Investments in NBE Bills	2k	2,711,332,000		2,090,348,000
Treasury Bills		-		448,965,000
Special fixed time deposit with NBE		-		365,410,000
Investments in Equity	3	8,752,500		5,030,000
Deposits and prepayments	4	97,999,631		67,868,726
Loans and advances to customers	2c,5	5,061,009,484		4,608,533,581
			8,043,060,008	7,681,803,118
Other assets	6	170,500,156		235,043,584
System suspense	7	9,708,908		6,132,871
Deferred expenditures	2g,8	15,771,488		694,864
Leasehold land	2h,9	438,182		448,141
Tangible fixed assets	2d,10	290,709,421		264,782,344
			487,128,155	507,101,805
Total Assets			11,276,391,264	10,160,113,834
LIABILITIES				
Customers' Deposits				
Demand deposits	11	1,851,585,442		2,058,340,880
Savings deposits	11	6,402,068,251		5,896,340,653
Fixed time deposits	11	842,823,249		541,466,765
			9,096,476,942	8,496,148,298
Margins held on letters of credit		272,121,784		160,739,970
Other liabilities	12	286,511,485		306,393,960
Provision for tax	13	75,869,442		77,357,809
			634,502,709	544,491,739
Deferred tax liability	13.2		16,443,403	11,839,205
Total Liabilities			9,747,423,054	9,052,479,241
CAPITAL AND RESERVES				
Paid-up capital	14		923,971,393	577,025,454
Share premium	15		5,074,715	2,827,540
Legal reserve	16		371,419,741	303,741,900
Special reserve	17		25,918,839	25,918,839
Retained earnings			202,583,522	198,120,859
Total Capital and Reserves			1,528,968,210	1,107,634,593
TOTAL LIABILITIES, CAPITAL AND RESERVES			11,276,391,264	10,160,113,834

Mehari Alemayehu
Chairman of Board of Directors

Mulugeta Asmare
Acting President

BANK OF ABYSSINIA SHARE COMPANY
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2014

	NOTES	Birr	Birr	2013 Birr
INCOME				
Interest income	2e,j,19		734,201,655	583,509,267
Less: interest expense	23		316,109,832	258,228,327
Net interest income			418,091,823	325,280,940
Net Gain on foreign exchange dealings & rates fluctuation	20	89,039,808		105,166,636
Service charges - foreign and local		136,185,903		115,562,460
Commission earned	21	35,918,351		34,470,079
Reversal of provision held in previous years		-		6,500,000
Other income	22	17,553,167		19,318,762
			278,697,229	281,017,937
			696,789,052	606,298,877
EXPENSES				-
Salaries and benefits		173,160,744		134,279,529
General and administration	24	171,494,601		119,652,799
Board of Directors' fees		291,390		291,390
Audit fee		178,250		158,000
Provision for other receivables		175,325		449,630
			(345,300,310)	(254,831,349)
Profit before tax			351,488,742	351,467,528
Less: provision for tax	13		76,173,182	77,901,128
			275,315,560	273,566,400
Deferred tax liability	13.2		4,604,198	8,805,255
Net profit after tax			270,711,362	264,761,145
Transfer to legal reserve 25%			67,677,841	66,190,286
Net profit after tax and legal reserve			203,033,521	198,570,859
Retained earnings brought forward			198,120,859	161,398,191
Less:- dividends paid			198,120,859	161,398,191
			203,033,521	198,570,859
Less: directors' shares on profit	25		450,000	450,000
Retained earnings carried forward			202,583,521	198,120,859
Earnings per share (par value of Birr 25)	26		9.52	12.54
Earnings per Birr 100 shares			38.08	50.15

Mehari Alemayehu
Chairman of Board of Directors

Mulugeta Asmare
Acting President

BANK OF ABYSSINIA SHARE COMPANY
CASH FLOW STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

			2013
	Birr	Birr	Birr
Cash flow from operating activities			-
Profit before provision for tax		351,488,742	351,467,528
Depreciation and amortization	36,581,792		20,343,459
Provision for other receivables	175,325		449,630
Provision for loans and advances no longer required	-		(6,500,000)
Gain on disposal of Fixed Assets	-		(460,069)
Net gain on disposal of acquired properties	(2,400,927)		(2,033,921)
Net Gain on foreign currency transactions and translations	(89,039,808)		(105,166,636)
		(54,683,618)	(93,367,537)
		296,805,124	258,099,991
(Increase)/ decrease in items in the course of collection	(68,318,581)		43,113,397
(Increase)/ decrease in other deposits and prepayments	(30,130,905)		(25,381,063)
(Increase)/ decrease in loans and advances to customers	(452,475,903)		(804,727,922)
(Increase)/ decrease in other assets	54,618,590		(151,025,753)
Increase in deposits by customers	600,328,644		1,724,902,710
Decrease in other liabilities excluding dividend payable and directors share on profit of previous year	(21,538,268)		(10,171,881)
Increase in margins on L/Cs	111,381,815		(10,370,527)
(Increase)/ decrease in trial balance difference	(3,576,037)		(6,132,871)
Net cash inflows from operating activities		190,289,355	760,206,089
Taxation			
Profit tax	77,357,809		*72,248,409*
Withholding tax	303,740		543,319
Capital gain tax	367,583		366,261
		(78,029,132)	(73,157,989)
		409,065,347	945,148,092
Cash flow from investing activities			
Proceeds from disposal of acquired properties	12,511,231		6,414,285
Purchase of fixed assets	(55,884,541)		(76,040,243)
Investment in IT project	(21,690,993)		(22,894,653)
Local Investment - stock and shares	(3,722,500)		(3,772,000)
Proceeds from investment in Special CDT with NBE	365,410,000		(365,410,000)
Purchase of NBE Bills	(620,984,000)		(629,115,000)
Proceeds from Investment in Treasury Bills	448,965,000		(448,965,000)
Net cash (outflow)/ inflow from investing activities		124,604,197	(1,539,782,611)
Cash flow from financing activities:			
Proceeds from share issuance	346,945,939		9,216,272
Dividends paid	(196,458,281)		(71,224,332)
Collections from share premium	2,247,175		
Directors profit share paid	(450,000)		(427,869)
Net cash inflow/(outflow) from financing activities		152,284,833	(62,435,929)
Effects of exchange rate changes		89,039,808	105,166,637
Net increase in cash for the year		774,994,185	(551,903,811)
Cash balance at the beginning of the year		1,971,208,917	2,523,112,728
Cash balance at the end of the year		2,746,203,101	1,971,208,917

Mehari Alemayehu
Chairman of Board of Directors

Mulugeta Asmare
Acting President

BANK OF ABYSSINIA SHARE COMPANY
STATEMENT CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

	Paid up Capital Birr	Share Premium Birr	Legal Reserve Birr	Special Reserve Birr	Retained Earnings Birr	Total Birr
Balance as at July 1, 2011	**315,000,000**	**2,827,540**	**183,609,594**	**25,918,839**	**133,402,537**	**660,758,510**
Dividend paid	-	-	-	-	(41,141,908)	(41,141,908)
Dividend capitalized 2011	92,260,629	-	-	-	(92,260,629)	-
Dividend capitalized 2010	48,768	-	-	-	-	48,768
Directors share on profit	-	-	-	-	(427,869)	(427,869)
Collection from subscribed shares	71,588,305	-	-	-	-	71,588,305
Net profit for the year	-	-	-	-	215,768,082	215,768,082
Transfer to legal reserve	-	-	53,942,020	-	(53,942,020)	-
Balance as at June 30, 2012	**478.897,702**	**2,827,540**	**237,551,614**	**25,918,839**	**161,398,193**	**906,593,888**
Dividend paid	-	-	-	-	(72,486,713)	(72,486,713)
Dividend capitalized	88,911,480	-	-	-	(88,911,480)	-
Directors share on profit	-	-	-	-	(450,000)	(450,000)
Collection from subscribed shares	9,216,272	-	-	-	-	9,216,272
Net profit for the year	-	-			264,761,145	264,761,145
Transfer to legal reserve	-	-	66,190,286	-	(66,190,286)	-
Balance as at June 30, 2013	**577,025,454**	**2,827,540**	**303,741,900**	**25,918,839**	**198,120,859**	**1,107,634,593**
Dividend paid	-	-	-	-	(19,459,758)	(19,459,758)
Dividend capitalized	178,661,102	-	-	-	(178,661,102)	-
Directors share on profit	-	-	-	-	(450,000)	(450,000)
Collection from subscribed shares	168,284,837	-	-	-	-	168,284,837
Proceeds from share premium		2,247,175			-	2,247,175
Net profit for the year	-	-	-	-	270,711,362	270,711,362
Transfer to Legal Reserve	-	-	67,677,841	-	(67,677,841)	--
Balance as at June 30, 2014	**923,971,393**	**5,074,715**	**371,419,741**	**25,918,839**	**202,583,522**	**1,528,968,210**

Mehari Alemayehu
Chairman of Board of Directors

Mulugeta Asmare
Acting President

BANK OF ABYSSINIA SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. BACKGROUND

Bank of Abyssinia was formed in Ethiopia in 1996, and is registered as a private share holding company in accordance with the provision of the licensing and supervision of the Banking Business Proclamation No.84/94, and the Commercial Code of Ethiopia 1960. The Bank has a network of 100 branches throughout the country as of June 30, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank, which are consistent with those applied in the preceding year are stated below:-

a. Basis of Preparation

The financial statements are prepared in accordance with the historical cost convention, generally accepted accounting principles and the laws and regulations of Ethiopia

b. Financial Instruments

i. Classification

A financial instrument is any contract that gives rise to a financial asset for the Bank and a financial liability or equity instrument of another party. All assets and liabilities in the balance sheet are financial instruments except fixed assets, deferred charges and shareholders' equity.

The major financial instruments of the Bank are loans and advances provided by the Bank to debtors. Loans and advances comprise deposits and other balances due from banks and loans and advances to customers.

ii Recognition of Financial Instruments

The Bank initially recognizes financial assets and liabilities on its balance sheet on the date it becomes a party to the contractual provisions of the instrument. Any gains and losses arising from changes in value of the assets are recognized from this date. When the Bank becomes a party to the contractual terms comprising a loan and as a consequence has the legal right to receive principal and interest payments on the loan, it controls the economic benefits associated with the loan. Normally, a bank becomes a party to the contractual provisions that comprise a loan (i.e. acquires legal ownership of the loan) on the date of the advance of funds or payment to the third party. As a result, a commitment to lend fund is not recognized as an asset on the balance sheet.

iii De-recognizing of Financial Instruments

All financial assets are de-recognized when the Bank loses control over the contractual rights that comprise the assets. This occurs when the rights are realized, expired or are surrendered. A financial liability is de-recognized when it is extinguished.

iv Measurement of Financial Instruments

The Bank measures all financial instruments initially at cost including transaction costs.

c. Loans and Advances

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

i **Pass Loans**

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

ii **Special Mention**

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

iii **Substandard**

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

iv **Doubtful**

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

v **Losses**

Non-performing loans or advances past due 360 days is classified as loss. As per the Directive, the provision for impairment losses are determined as follows:-

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

Note : Net loan balance is outstanding loan balance less net recovery value of collaterals.

d. Fixed Assets

The Bank had been using the straight line basis of depreciation from the start of operations of the Bank until June 30, 2002. Thereafter, as per Tax Proclamation No.286/2002, the Bank had changed the depreciation method to the pooling system and effecting the depreciation up to June 30, 2009 accordingly. Presently, to be compliant with International Financial Reporting Standards, the Bank has restored the depreciation basis to the straight line basis, and adjusted the records of the Bank as of June 30 2010 (Note 6).

i Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on the straight line basis at the following rates per annum:

	%
Vehicle	20
Furniture, fittings and equipment	10
Computers	10
Building	5

For profit tax purpose, necessary adjustments are made to comply with the Income Tax Proclamation 286/2002 (Note 9)

e. Revenue Recognition

Interest income and expenses in the income statement are recognized on an accrual basis. However, interest accruing on loans and advances referred to legal counsel including substandard, doubtful and loss loans categories are maintained under memorandum account and are recognized as income when collected.

f. Foreign Currencies

Foreign currency transactions are recorded at rates of exchange ruling at the date of transactions. Monetary assets denominated in foreign currencies, which are stated at historical costs, are translated at the exchange rate ruling on that date. Foreign exchange differences arising on translations are recognized in the income statement.

g. Deferred Expenditures

Deferred expenditures represent expenses incurred for establishment of E- banking project.

h. Leasehold Land

Bank of Abyssinia Share Company together with Nile Insurance Share Company has acquired 1,248 sq.m. Leasehold land from Bahr Dar City Administration for a period of 55 years.

i. Bonus

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

j. Interest Income

Interest income on advances on import bills is recognized on collection.

k. NBE Bills

This represents purchases of five year National Bank of Ethiopia Bills as per the National Bank of Ethiopia Directive No.MFA/NBE Bills 002/2013

3. INVESTMENTS

This represents cash paid for purchases of shares of various share companies.
The details are as follows:-

	No. of share	Par value (Birr)	Amount (Birr)	2013 Birr
Ethswich s.c	5,030	1,000	5,030,000	5,030,000
Addis Africa International Convention & Exhibition Center s.co	1,904	1,000	1,904,000	-
Hohete Tibebe s.co	3,637	500	1,818,500	-
			8,752,500	5,030,000

4. DEPOSITS AND PREPAYMENTS

		2013
	Birr	Birr
Prepaid rent	97,866,071	67,777,574
Deposit for rent	2,133,560	2,091,152
	99,999,631	69,868,726
Less: provision for other receivables	2,000,000	2,000,000
	97,999,631	67,868,726

5. LOANS AND ADVANCE TO CUSTOMERS

		2013
	Birr	Birr
Domestic trade and services	2,244,451,520	2,194,046,131
Import	684,557,630	835,933,548
Construction	819,539,210	716,948,761
Transport	119,963,170	135,184,339
Industry	243,545,150	221,875,893
Export	980,862,630	543,548,424
Agriculture	15,229,470	8,149,123
Others	45,311,871	46,387,893
	5,153,460,651	4,702,074,112
Less: provision for loans and advances	92,451,167	93,540,531
	5,061,009,484	4,608,533,581

6. OTHER ASSETS

		2013
	Birr	Birr
Properties held for sale	64,195,433	67,230,493
Stationery and other stocks	5,998,933	5,084,655
Accounts receivable – medical	5,149,411	1,513,719
Stock of fixed asset items	8,847,230	4,988,163
Accrued Income Receivable	39,926,324	30,267,374
Branches under opening	20,743,189	21,226,087
Value of collateral sold but not collected	-	62,550,000
International money transfer agents	858,249	29,266,451
Miscellaneous accounts receivable	41,008,730	28,974,660
	186,727,499	251,101,602
Less: provision for other receivables	(16,227,343)	(16,058,018)
	170,500,156	235,043,584

7. SYSTEM SUSPENSE

This amount represents trial balance difference that emerged while combining the accounts prepared by the old system 'Legacy' and the new system 'T-24'.All term loans and the associated interest income accounts included in these financial statement have been compiled using the old system and the rest of accounts have been prepared using the new 'T-24' system.

8. DEFERRED EXPENDITURE

	Balance 1/7/2013	Additions	Transfer to Fixed Assets	Balance 30/06/14
	Birr	Birr	Birr	Birr
Cost	694,864	21,690,993	(6,614,369)	15,771,488

9. LEASEHOLD LAND

	Balance 1/7/2013	Additions	Balance 30/06/14
	Birr	Birr	Birr
Cost	566,920	-	566,920
Amortization	(118,779)	9,959	(128,738)
Net book value	448,141		438,182

10. TANGIBLE FIXED ASSETS

	Balance 1/7/2013 Birr	Additions Birr	Disposal Birr	Balance 30/06/14 Birr
COST				
Buildings	76,738,286	6,685,672	-	83,423,958
Motor vehicles	85,978,770	21,134,448	-	107,113,218
Office and other equipment	34,933,401	11,316,005	-	46,249,406
Furniture and fittings	35,100,259	9,881,724	-	44,981,983
Computer accessories & Software	128,184,754	13,031,978	-	141,216,732
Construction in progress	2,641,801	449,081	-	3,090,882
	363,577,271	62,498,910	-	426,076,181
DEPRECIATION				
Buildings	13,154,566	4,059,770		17,214,336
Motor vehicles	45,226,501	12,681,009	-	57,907,510
Office and other equipment	12,456,750	3,859,092	-	16,315,842
Furniture and fittings	16,414,816	3,198,996	-	19,613,813
Computer accessories	11,542,293	12,772,966	-	24,315,259
	98,794,926	36,571,834	-	135,366,760
NET BOOK VALUE	264,782,345			290,709,421

11. DEPOSITS FROM CUSTOMERS

	Demand	Savings	Fixed time	Total	2013 Birr
Private sector & staffs	1,532,921,249	6,104,078,621	362,979,925	7,999,979,795	7,552,438,299
Co-operatives & associations	121,147,309	235,296,070	56,221,159	412,664,538	354,553,262
Domestic banks	32,640,248	40,917,756	421,959,042	495,517,046	367,793,956
NR-transferable Birr accounts	36,531,619			36,531,619	9,463,513
Public agencies & enterprises	7,902,360	21,775,804	1,663,123	31,341,287	40,986,343
NR-non transferable accounts	8,258,701			8,258,701	63,481,154
NR- foreign currency accounts	94,148,936			94,148,936	76,708,246
Residents	18,035,020			18,035,020	30,723,525
At 30.06.14	1,851,585,442	6,402,068,251	842,823,249	9,096,476,942	8,496,148,298
At 30.06.13	2,058,340,880	5,896,340,653	541,466,765	8,496,148,298	

12. OTHER LIABILITIES

		2013
	Birr	Birr
Cashiers' payment orders	142,954,255	167,969,880
Blocked account and blocking inwards	4,610,561	14,723,035
MTs and TTs payable, local and foreign	26,809,874	18,332,498
Board of Directors' fees	471,888	478,673
Dividends payable	12,963,352	11,300,774
Accrued interest on CDT	32,601,136	18,416,684
Old draft and outstanding payments-local/foreign	5,693,796	7,070,619
Exchange and auction payable	10,676,157	10,161,787
Annual leave pay	19,380,238	20,878,564
Stamp duty charges	1,152,434	3,117,023
Payroll tax payable	1,900,669	1,932,366
Sales tax on interest paid	2,060,445	2,569,872
VAT	828,730	70,143
Withholding tax	1,592,989	494,406
Deposit for guarantee issued	3,129,318	4,077,339
Safe deposit key value	458,685	347,905
Audit fee	190,250	170,000
Miscellaneous accounts payable	16,790,457	22,031,461
Provision for claims under court case	2,246,251	2,250,931
	286,511,485	306,393,960

13. PROVISION FOR TAXATION

			2013
	Birr	Birr	Birr
The movements in this account are:			
Beginning balance		77,357,809	72,248,409
Less; Settlement		77,357,809	72,248,409
		-	-
Provision for the year			
Profit before tax		351,488,742	351,467,528
Less; Depreciation per Tax proclamation			
No.286/2002(see note 13.1)	51,919,158		49,224,280
Income from NBE Bills	73,022,927		52,960,514
Interest income Form Special CDT With NBE	6,757,582		3,333,741
Interest on foreign deposits	314,427		966,974
Income from Treasury Bills	1,617,936		5,042,721
Gain on fixed assets disposal on which CGT was paid	2,401,852		2,039,546
Gain on fixed asset disposal	-		460,069
		(136,033,882)	114,027,845
Add: Provision for other receivables	175,325		449,630
Depreciation per accounting policy	36,571,833		20,333,500
Donations	75,800		99,370
Entertainment	1,580,384		1,187,080
		38,403,342	22,069,580
Taxable profit for the year		253,858,202	259,509,264
Provision for profit tax @ 30%		76,157,461	77,852,779
Add; 5% of interest on foreign deposits		15,721	48,349
		76,173,182	77,901,128
Less: Withholding tax paid		303,740	543,319
Profit tax payable		75,869,442	77,357,809

13.1. DEPRECIATION FOR TAX PURPOSES

	Birr	Birr
BUILDING		
Cost brought forward	76,738,286	
Current year addition	6,685,673	
	83,423,959	
Less; Accumulated depreciation brought forward	(13,154,566)	
Current year depreciation	(4,059,770)	4,059,770
Depreciation base carried forward	66,209,623	
COMPUTER AND ACCESSORIES		
Tax base brought forward	86,327,956	
Addition	13,031,979	
Depreciation Base	99,359,935	
Depreciation @ 25%	(24,839,983)	24,839,983
Net Book Value	74,519,950	
Other business assets		
Depreciation base brought forward	72,764,849	
Add; Addition	42,332,177	
Less: Disposal Proceeds	-	
Depreciation Base	115,097,026	
Depreciation @ 20%	(23,019,405)	23,019,405
Net Book Value	92,077,621	
Total depreciation for tax purpose		51,919,158

Tax assessments for the fiscal years from 2003/04 onwards have not been received from the Federal Inland Revenue Authority. However, as per the “Exit Strategy” of the Government, previously paid taxes in respect of the fiscal years to 2002/03 are to be taken as final.

13.2 DEFERRED TAX

	Birr	2013 Birr
Net Book Value as Per Accounting Policy	287,618,538	262,140,543
Tax base	(232,807,196)	(222,676,526)
Temporary difference	54,811,342	39,464,017
Deferred Tax Liability @ 30%	16,443,403	11,839,205

Deferred tax liability has been computed on Balance sheet method.

14. SHARE CAPITAL

	Number of Shares	Par value	Birr	2013 Birr
Authorized	60,000,000	25	1,500,000,000	630,000,000
Paid up capital	36,958,856	25	923,971,393	577,025,454

15. SHARE PREMIUM

The movement in this account was as follows:

		2013
	Birr	Birr
Balance as at July 1, 2013	2,827,540	2,827,540
Addition for the year	2,247,175	-
	5,074,715	2,827,540

16. LEGAL RESERVE

		2013
	Birr	Birr
Balance as at July 1, 2013	303,741,900	237,551,614
Transfer for the year	67,677,841	66,190,286
	371,419,741	303,741,900

17. SPECIAL RESERVE

		2013
	Birr	Birr
Balance as at July 1, 2013	25,918,839	25,918,839
Transfer for the year	-	-
	25,918,839	25,918,839

18. PROVISION FOR DOUBTFUL LOANS AND ADVANCES

The movement in this account was as follows:

			2013
	Birr	Birr	Birr
Beginning balance		93,540,530	100,101,041
Less : Provision no longer required			(6,500,000)
Write-off loans and advances	1,089,363		(60,511)
		(1,089,363)	(6,560,511)
		92,451,167	93,540,530

19. INTEREST INCOME

	Birr	2013 Birr
Interest on - Term loan	533,675,063	414,019,875
- Overdraft	81,924,504	76,737,870
- Import and export facilities	14,613,816	13,083,561
-Advance on sales contract	16,575,395	-
- Old loans under court case	5,700,005	17,364,012
	652,488,783	521,205,318
Deposits with foreign banks	314,427	966,973
NBE Bills	73,022,928	52,960,514
Treasury Bills	1,617,935	5,042,721
Deposits with domestic banks (NBE)	6,757,,582	3,333,741
	734,201,655	583,509,267

20. NET GAIN ON FLUCTUATION OF EXCHANGE RATES

	Birr	2013 Birr
Gain on fluctuation of exchange rates	108,350,955	137,366,689
Less; Loss on fluctuation of exchange rates	(19,311,147)	(32,200,053)
	89,039,808	105,166,636

21. COMMISSION EARNED

	Birr	2013 Birr
Letter of credit and other import/export facilities	20,488,404	10,968,938
MTs, TTs, DDs - local and foreign	6,405,794	9,056,100
Letters of guarantee	5,311,881	11,254,849
Cashiers' payment order	1,688,546	1,241,626
IBC and others	1,994,657	1,230,103
Uncleared effects	29,069	718,463
	35,918,351	34,470,079

22. OTHER INCOME

	Birr	2013 Birr
Rent	1,797,717	768,602
Telephone, telegram, telex and fax	3,615,596	5,298,012
Sundries	8,876,061	9,652,612
Safe box charge	220,367	330,995
Gain on disposal of fixed assets	-	460,069
Gain on disposal of acquired properties	2,401,852	2,044,546
Correspondent charges	397,809	439,421
Estimation fee	243,765	324,505
	17,553,167	19,318,762

23. INTEREST EXPENSE

		2013
	Birr	Birr
Savings deposits	252,053,257	229,547,481
Fixed time deposits	64,056,575	28,680,846
	316,109,832	258,228,327

24. GENERAL AND ADMINISTRATION EXPENSE

		2013
	Birr	Birr
Office rent	55,474,020	38,770,228
Depreciation	36,571,833	20,333,500
Postage, telephone, telegram, telex/fax	11,040,354	6,832,650
Stationery and printing	9,647,314	8,888,561
Transportation	10,839,605	7,289,719
Advertisements	5,125,390	4,793,263
Car and representation allowance	1,782,524	1,533,624
Repair and maintenance	7,329,175	5,049,288
Fuel and lubricants	6,400,226	5,041,011
Insurance	5,477,656	3,996,677
Per diems and travel	5,653,982	2,723,330
Correspondent charges	484,463	844,114
SWIFT services	526,995	-
Utilities	1,464,028	1,022,275
Amortization	9,958	9,959
Donations and contributions	75,800	99,370
Annual reception	3,087,868	3,334,286
Bank charges	1,325,483	2,377,892
Membership and subscriptions	392,236	202,250
Entertainment	1,580,384	1,187,080
Inauguration of branches	-	101,789
Legal	20,201	103,676
License fee	15,500	8,050
Cleaning Supplies	733,187	503,806
Wages	482,702	577,379
Transportation of currency	752,929	781,104
Loss on disposal of acquired properties	-	10,625
Sundries	5,200,788	3,237,293
	171,494,601	119,652,799

25. DIRECTORS' SHARES ON PROFIT

Board of Directors remuneration is calculated in compliance with Directive No. SBB/49/2011 which has been issued by the National Bank of Ethiopia, effective from January 15, 2011, which limits the maximum compensation of Birr 50,000 for each Board member. The amount has been shown in the profit and loss account.

26. EARNING PER SHARE

The rate of earnings per share, is the return per share computed on the basis of the net profit after tax, but before legal reserve divided by the weighted average number of shares held during the year.

27. CONTINGENT LIABILITY AND COMMITMENTS

Contingent liability:

		2013
	Birr	Birr
Letter of Guarantee	527,043,134	440,572,457
Loans and advances approved but not disbursed	147,937,724	486,164,620
Unutilized Overdraft and other revolving facilities	476,905,159	433,496,540
Letter of Credit	424,679,124	466,295,922
	1,576,565,141	1,826,529,539

28. MEMORANDUM ACCOUNTS

		2013
	Birr	Birr
OBC-Own branches and other banks' city clearance	25,766,278	20,481,374
IBC-Acceptance and sight	43,372,740	66,032,898
Outward document bills sent for collection - foreign	670,882	670,882
Interest on non performing loans	41,593,875	63,103,222
Loans and advances written off and kept in memorandum accounts	198,922,546	197,833,183
Money bags	838	888
	310,327,159	348,122,447

29. RELATED PARTY TRANSACTIONS

a) The significant balances and transactions included in the financial statements are indicated as:-

	Birr
Loans and advances as at June 30, 2014	181,700,000

b) These represent transactions with certain related parties with major shareholders of the bank or directors who have control over decision of the bank. The terms of these transactions were approved by the bank's management on agreed terms.

30. NON ADJUSTING SUBSEQUENT EVENTS

As per strategies devised and due subsequent commitments and remarkable devotion of the Board of Directors and Senior management organs of the bank, a fifteen story building has been acquired from SACA PLC at the value of Birr 350,000,000 (three hundred fifty million) before 15% VAT for its Head office operations.

31. RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments. Asset and liability management committee is responsible for implementing appropriate policy, procedure, risk management techniques and managing all types of risks in the bank.

Credit Risk

Credit risk is the financial exposure resulting from a bank's dependence on another party to discharge an obligation as agreed and cause the bank to incur a financial loss. The bank has established a credit risk management system on the basis of maximizing return on its assets while keeping its credit exposure within acceptable limits. The Bank regularly reviews its credit portfolio quality, provisioning requirements and customer exposure. The bank's loans and advances are diversified in various sectors as shown in Note 5 to the financial statements.

Liquidity Risk

Liquidity risk arises in the general funding activities of the Bank and the management of positions. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in appropriate time frame. The Bank has a reasonable funding base. Funds are raised mainly from customers' deposits. The maturity profile is monitored by the oversight asset and liability management committee to ensure adequate liquidity is maintained.

Foreign Exchange Risk

Foreign exchange risk results from changes in exchange rates between a bank's domestic currency and other currencies. Foreign exchange risks are controlled by maintaining balances in major currencies whose exchange rates against the reporting currency have always been appreciating. The bank settles foreign exchange transactions of customers at the exchange rate prevailing on the date of the transactions. Hence, the customers bear the cost of any increase in the exchange rates.

Interest Rate Risk

Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Bank's interest margin or the value of its net worth. The bank often revises its lending rate across segments of the credit portfolio based on changes in the cost of funds, reserve requirements and the perceived risk in each credit portfolio segment to keep the overall profitability.

The assets and liability management committee is responsible for managing rate-sensitive assets and liabilities and the effects of rate, volume and mix changes in order to preserve and optimize the interest return.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal process and systems, fraud, malpractices or external events. The bank manages its operational risk through implementation of sound policies, procedures and staff training on proper implementation of operational manuals by the operational units. Additionally the bank has strong oversight and supervision and internal control function. Besides, IT system and management audit have been started to strengthen operational risk management framework.

32. COMPARATIVE FIGURES

Some of the previous year comparative figures have been re-arranged in order to facilitate comparison.