



WEGAGEN BANK, s. c.

2011/12 Annual Report



Your Partner in Development

ANNUAL REPORT 2011/12

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VISION

“To become the most preferred bank in Ethiopia”

MISSION

“To provide a wide range of quality banking services through a dynamic workforce and up-to-date IT solutions to satisfy the desires of all stakeholders”

PRINCIPLES AND VALUES

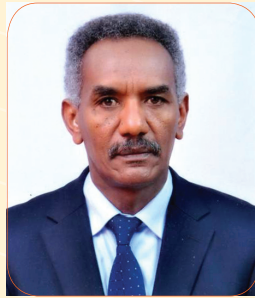
Wegagen Bank is committed to the following main business principles:

- Outstanding customer services;
- Business integrity, honesty and loyalty;
- Effective, efficient and expanding operations;
- Strong capital and liquidity position;
- Prudent lending;
- Reasonable cost control discipline;
- Fair and objective employment practices;
- Commitment to comply with the spirit and letter of the Law;
- Playing a responsible role in aligning objectives with those of the local communities.

THE MANAGEMENT TEAM



Kewser Rashid
V/P - Operations



Araya G/Egziabher
President/CEO



Woldegebriel Wedajo
V/P - Support Services



Kahsay Fiseha
Manager, Domestic Banking
Department



Enyew Tadele
Manager, Finance & Accounts
Department



Demas Zewdu
Manager, Admin & HRD
Department



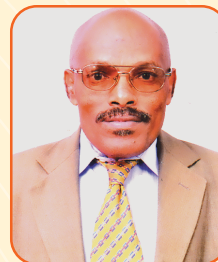
Dawit Teferra
Manager, ITS Department



Wonde Wodaje
Manager, IBD



Gebru Meshesha
Manager, Marketing Department



G/Giorgis Hailu
Manager, Risk and Compliance
Management Department



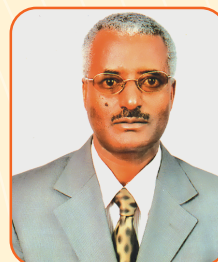
Yehualashet Zewdu
Manager, Control Department



Addis W/Cherkos
Manager, Credit Department



Kefene Gurmu
Manager, Legal Department



Tesfaye H/Michael
Manager, Engineering Service



Wondifraw Taddese
Manager, Corporate
Planning Department

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

It gives me great pleasure to present to you Wegagen Bank's Annual Performance Report for the financial year ended June 30, 2012.

During the year, global demand experienced a slowdown due to deteriorating euro area economic stability and weakened recovery of the US economy. Growth also slowed down in emerging and developing economies, reflecting the combined impact of higher inflation, austerity measures and general slowdown in global growth.

Kick starting the fiscal year with an impressive growth of 11% in the preceding financial year, the Ethiopian economy continued to register marked economic growth. There had, however, been high inflation as well as a slowdown in export trade posing challenges that were satisfactorily addressed by the nation particularly when it comes to controlling inflation.

The banking sector has also been under the impact of the demanding NBE's requirement that obliges private banks to purchase bills in 27% of loans disbursed, albeit the overriding nature of the whole initiative which targets realization of multifaceted national development projects. In spite of the challenging environment, our Bank was able to register an overall business growth of about 4% to reach a level of Birr 8.35 Bln of assets for the financial year ended June 30, 2012.

The Bank was able to maintain its Total Income level achieved the previous year and exceeding it by 0.2% while closing on the target set for the year by 93%. Net worth of the Bank stood at Birr 1.6 Bln (including Retained Earnings) as against Birr 1.2 Bln the previous fiscal year, keeping the capital adequacy position well above 27% throughout the fiscal year. Return on Equity (ROE) worked out to 39.8% and the Return on Assets (ROA) was at 5.5% while Earnings per Share computed Birr 378.

Overall credit operations had seen a commendable performance witnessing a 5% and 23% loan portfolio growth compared to the target and previous year's performances, respectively. The Bank was able to keep its Non-Performing Loans level at 2.98% well below the maximum allowable regulatory requirement of 5%.

The Bank has continued its active role of financial intermediation and providing various financial services by giving support to various sectors including Agriculture, Manufacturing, Export, Imports, Wholesale and Retail Trade, Hotel and Tourism as well as Transport Services. The Bank has also created another milestone by opening its 63rd Branch and showing its growing presence across the country. In addition, the Bank has also brought its new CORE-Banking system project to a positive conclusion by rolling it out across all branches.

The Bank firmly believes that acquisition of new customers and nurturing the relationship with existing clients will only help in expansion of its business. During the year, the clientele base of the Bank increased by about 19% with well over 90% being Savings account holders. The Bank is now initiating several steps towards human power development, enhancing organizational efficiency and process changes and improvements wherever necessary to accelerate growth with quality.

It is a well known fact and convection of the Bank that customers form the life line of its operational purpose. I would, therefore, like to sincerely thank our valuable customers as well as shareholders for their continued support and patronage. I would also like to thank all the staff and management team for their active involvement and contribution towards the growth of the Bank. My gratitude also goes to the National Bank of Ethiopia and other government organs for their continued effort toward creating a safe and sound financial sector. It is my firm belief that the Bank would leverage on sincere drive for operational excellence, work ethic as well as genuine professionalism for enhanced performance in the years ahead.

Looking ahead, the global economy may remain fragile, but we hope the situation will improve. Overall, our Bank will remain vigilant to tap advantages from emerging new opportunities and proactively mitigate challenges as the current economic environment warrants greater prudence.

Best Regards

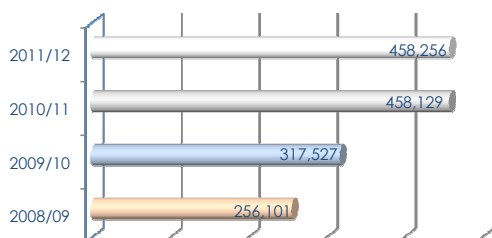


Sebbat Negga
Chairperson,
Board of Directors

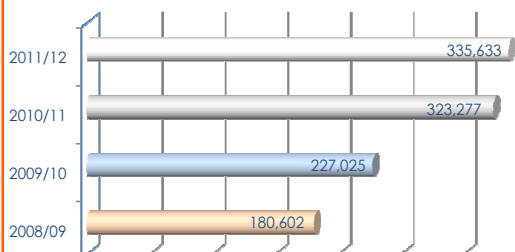
PERFORMANCE HIGHLIGHT

(In Thousands of Birr)

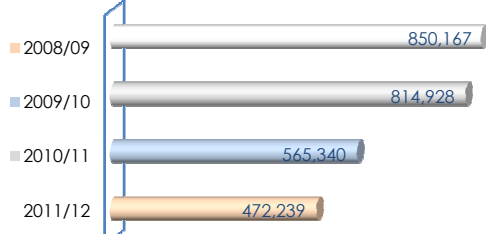
Net Profit Before Tax



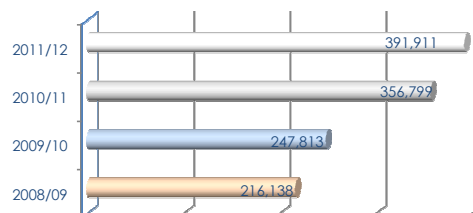
Net Profit After Tax



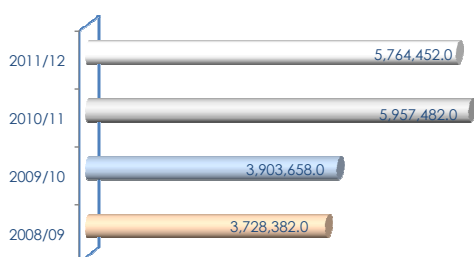
Total Income



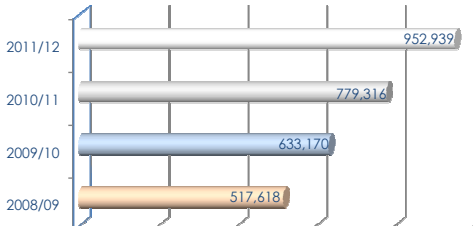
Total Expense



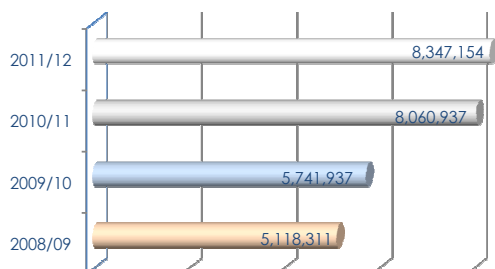
Total Deposits



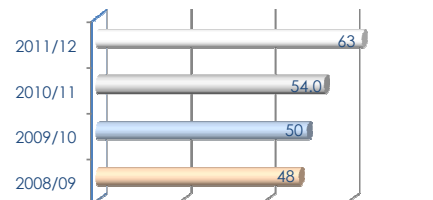
Paid up Capital



Asset



Branch Network

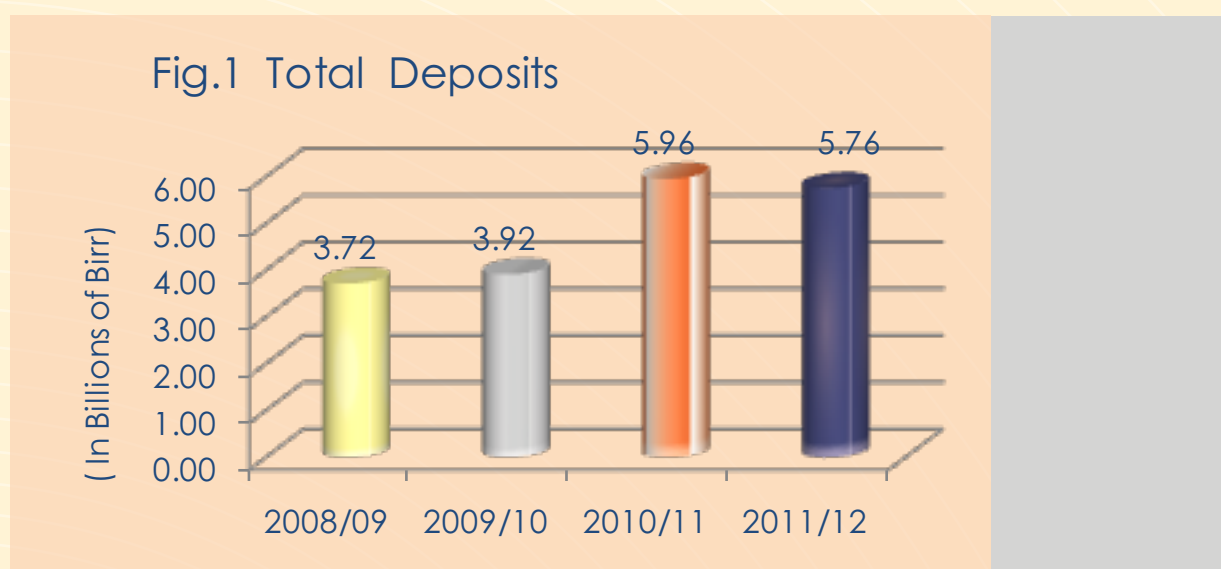


A. Report of the Board of Directors

1. Operational Performance

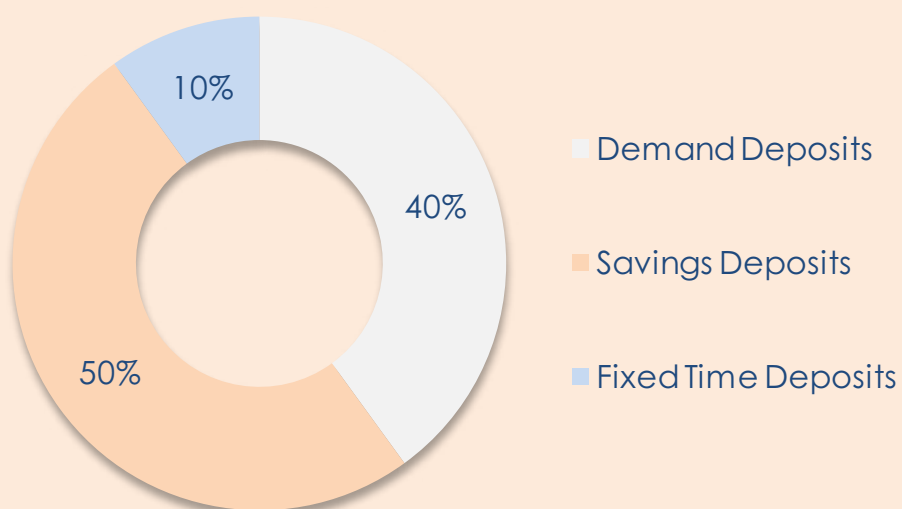
1.1 Deposit Mobilization

Deposit mobilization saw several impediments over the fiscal year which was punctuated by various external events & phenomena. The total deposits of the Bank reached Birr 5.76 billion as at June 30, 2012, showing a marginal reduction by 3% (Birr 193 million) from a level of Just Birr 5.96 billion of the previous year's balance.



Demand deposits totaled Birr 2.34 billion, dropping by 25% (Birr 781.1 million) year-on-year. Unlike demand deposits, savings and fixed time deposits registered an increment of 14% and 79% and reached Birr 2.87 billion and Birr 555.6 million, respectively. Savings deposits constituted the largest share by slicing a 50% share out of the total deposits, followed by Demand deposit (40%) and Fixed time deposits (10%).

Fig. 2 Composition of Deposits



1.2 Loans and Advances

Total outstanding loans and advances of the Bank stood at Birr 3.57 billion as at June 30, 2012. It surpassed the balance of the previous year of Birr 2.91 billion by 23% or Birr 655 mn. The observed growth would have even been higher had the Bank not experienced the indicated substantial unprecedented deposit withdrawal over the year.

Fig.3 Total Loans & Advances

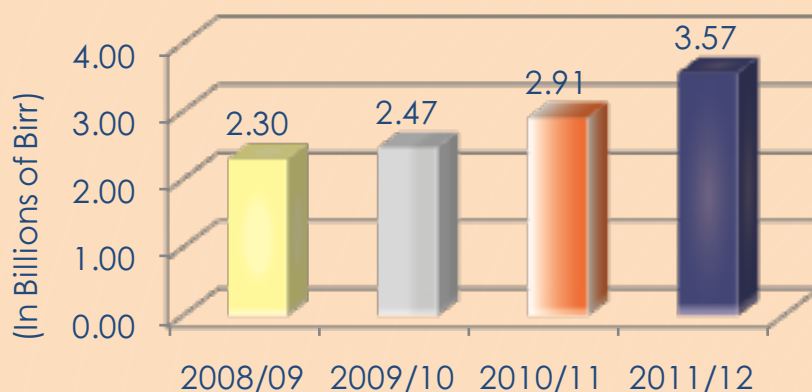
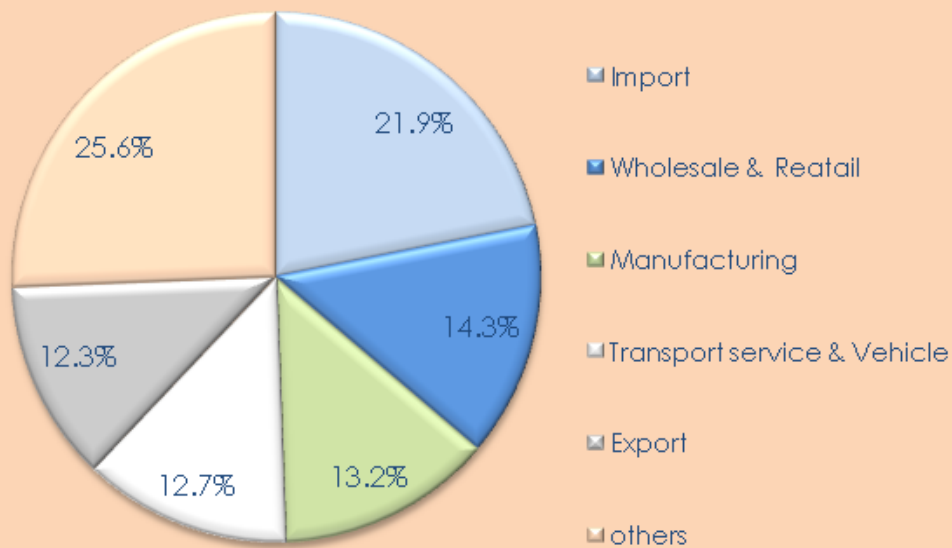


Fig 4 Composition of Loans & Advances



1.3 International Banking Operation

International banking activities generated a significant proportion of the Bank's income, and hence profit. During the period under report, international banking business generated Birr 341 million, which was 41.9% of the Bank's revenue. However, the business line registered a decline by 26% compared to the preceding year's Birr 463.3 million owing to various factors much of which are external in nature including the general decline in the activity itself globally.



Annual Management Meeting

Correspondent Banks for Standard Settlement Instruction (SSI)

No.	Name of Banks	Currency	Town	Swift/BIC	Account no.	Type
1	Citibank NA	USD	New York	CITIUS33	36128583	C/A
2	Citibank NA	EUR	London	CITIGB2L	10585831	C/A
3	Citibank NA	GBP	London	CITIGB2L	11070657	C/A
4	Citibank NA	JPY	London	CITIGB2L	12008939	C/A
5	Commerzbank AG	EUR	Frankfurt am main	COBADEFF	400870030401	EUR
6	Commerzbank AG	USD	Frankfurt am main	COBADEFF	400870030400	USD
7	Commerzbank AG	SEK	Frankfurt am main	COBADEFF	400870030400	SEK
8	HSBC Bank plc	USD	Johannesburg	HSBCZAJJ	121-000608-150	C/A
9	HSBC Bank plc	EUR	Johannesburg	HSBCZAJJ	121-000608-151	C/A
10	HSBC Bank plc	JPY	Johannesburg	HSBCZAJJ	121-000608-153	C/A
11	Standard Chartered Bank	USD	London	SCBLGB2L	017068107-50	C/A
12	Standard Chartered Bank	GBP	London	SCBLGB2L	017068107-01	C/A
13	Unicredito Italiano SPA	EUR	Millan	UNCRTMM	0995 8850600	C/A
14	Unicredito Italiano SPA	USD	Millan	UNCRTMM	0995 1832500	C/A
15	ING Belgium SA/NV (formerly BBL)	EUR	Brussels	BBRUBEBB	301-0105758-12-EUR	C/A
16	ING Belgium SA/NV (formerly BBL)	USD	Brussels	BBRUBEBB	301-0105758-12-011	C/A
17	Natexis Banques Populaires	EUR	Paris	CCBFRPPP	FR76300079999906079200000019EUR	C/A
18	Natexis Banques Populaires	USD	Paris	CCBFRPPP	FR76300079999906079200000019USD	C/A
19	The National Commercial Bank	USD	Jeddah	NCBKSAJE	555135240 10105	C/A
20	Bank OF Africa Mer-Rouge (Credit Agricole - Banque Indosuez Mer Rouge)	USD	Djibouti	MRINDJJD	100820596580002	C/A
21	Banque pour Le Commerce ET Industrie Mer Rouge	USD	Djibouti	BCIMDJJ	09590015547001USD	C/A
22	Nordea Bank, Denmark a/s	DKK	Copenhagen	NDEADKKK	5000013858	C/A

2. Financial Performance

2.1 Asset Expansion

The total asset of the Bank reached Birr 8.3 billion, expanding by 4% (Birr 286.2 million) compared with the preceding year's position.

2.2 Capital Growth

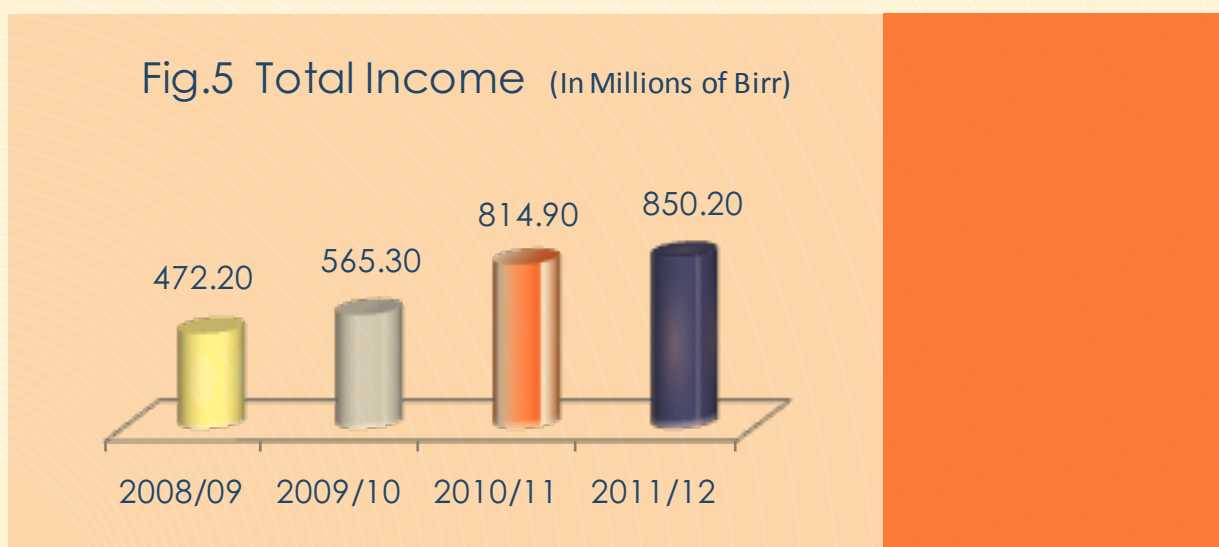
The total capital of the Bank which is a summation of paid-up capital, legal reserve, retained earnings and share premium has reached Birr 1.6 billion for the year ended June 30, 2012 witnessing an annual increment of 20% or Birr 266.7 million. The paid up capital alone reached Birr 952.9 million making the Bank an industry leader, among the private Banks.



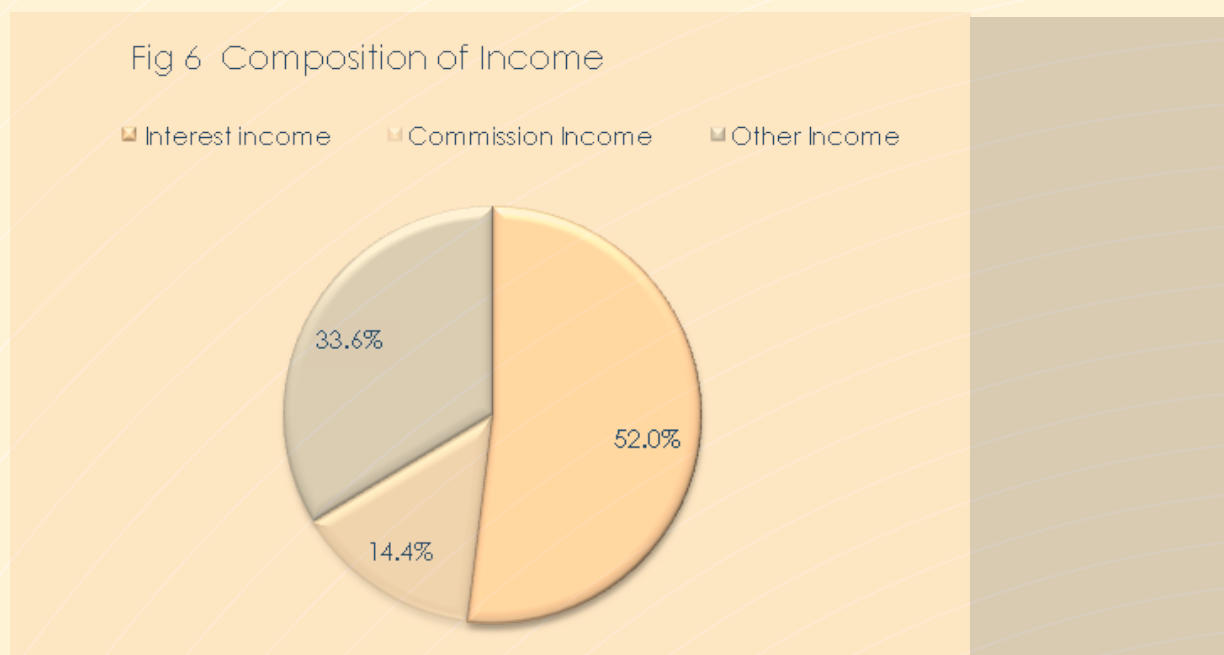
Shareholders' Annual Meeting

2.3 Income Analysis

Income earned during the year was Birr 850.2 millions. Compare to the previous year's same period, it has grown by 4%. Performance recorded in this respect for the last four years is depicted as follows.

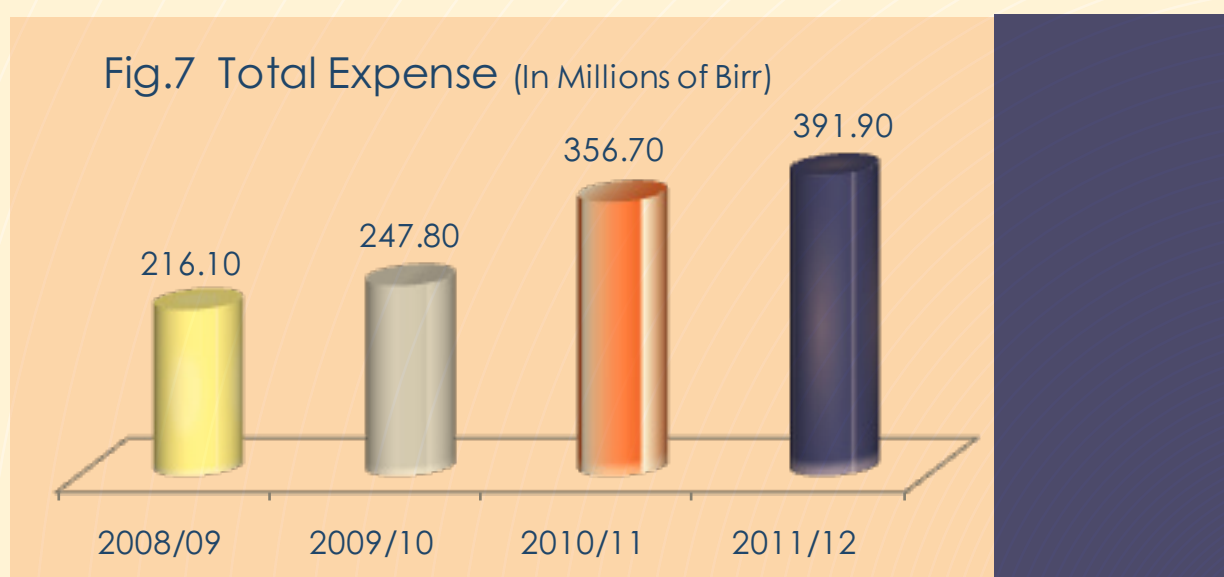


A look at the composition of income reveals that Interest Income took the largest share of 52% (Birr 441.6 million) followed by Other Income (33.6% or Birr 285.7 million) and Commission Income (14.4% or Birr 122.8 million).

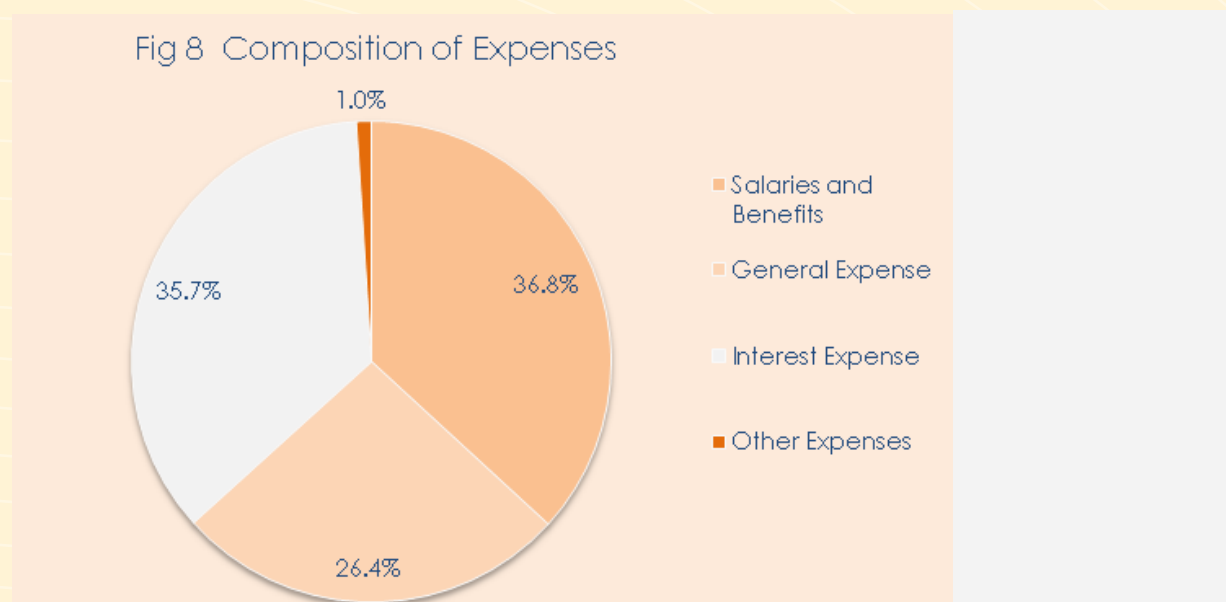


2.4 Expense Analysis

The Bank has incurred Birr 391.9 million for various expenditures during the period under review. The overall operating expenses rose above last year's level of Birr 356.7 million mainly due to an increase in interest bearing deposits, salaries and benefits as well as general expenses.



In terms of structure of the expenses, Salaries and Benefits contributed the largest share of 36.8% (Birr 144.4 million) followed by interest, General and Other Expenses which accounted to 35.7% (Birr 139.9 million), 26.4% (Birr 103.7 million) and 1% (Birr 3.9 million), respectively.



2.5 Profit Analysis

Despite the regulatory measures imposed on the lending capacity of the Bank as a result of the NBE-Bills effect and prevailing stiff competition in deposit mobilization in the industry, the Bank remains Profitable on account of optimum utilization of resources with unreserved effort, put forth by our Shareholders, Board of Directors, top management members and staff in the just concluded fiscal year. The reported profit before tax was Birr 458.3 million, witnessing marginal increment compared with the preceding year's performance of Birr 458.1 million. Profit after tax, on the other hand, totaled Birr 335.6 million, raised by about 4% compared to last fiscal year's corresponding figure (birr 323.2 million)

3. Business Development and Capacity Building

3.1 Branch Network

During the year under review, nine new additional branches were opened across the country of which three are in the capital while the remaining six are in outlying regions. Consequently, the total number of branches of the Bank stood at 63 as at June 30, 2012, exhibiting a growth of 16.7% over the last year's position.

3.2. Human Resource

The Bank has continued the effort of developing its employees' capacity through on job and off the job trainings. During the fiscal year, several trainings have been provided to many employees at different levels on various areas. The total number of the Bank's employees stood at 2,230, of which clerical staff constituted 56% (1,249) while the remaining 44% (987) were non-clerical



Capacity Building

3.3 Information Technology

The Bank has fully implemented the new CORE-Banking system. Deployment of the Omni Enterprise, and rolling it out across all Branches of the Bank has been finalized. Stabilizing the system and enhancing its operational efficiency had been a major task to ensure the Bank leverages on deposits mobilization and service excellence.

The Bank is also scaling up its card payment business by deploying more ATMs and PoS terminals at major locations across the country. By the close of the fiscal year, there were 43 ATMs and 63 PoS terminals operational across the country. Furthermore, the Bank sees to launch internet and mobile banking services to further broaden its service outreach to its esteemed customers.

3.4 Headquarters Building

Wegagen is poised to erect a 23-storey elegant Headquarters building complex right at the heart of the capital. The Bank has now finalized all the logistical requirements and the construction work has now been already started. The groundworks of erecting the imposing building complex is well underway and the digging and pile erection tasks have been fully completed. Had it not been for the time and effort lost in securing a piece of land beside the site for warehousing and other logistics purposes, the work in progress would have by now gone a lot further. The building is believed to hand the Bank with multifaceted advantages by primarily relieving it of the ever escalating rental costs as well as serving it as an all-time promotional entity which would paint a fairly good image of the Bank in the hearts and minds of the general public.

4 Risk Management

As part of an ongoing effort to fulfill the Bank's short and long term strategy, the Board and Management executives are committed in supporting through their decision making to establish, sustain, and develop a robust and sound risk management system. Currently, the Bank is exercising the practice on all risk types including credit, liquidity, market, strategic, and operational risks. In order to effectively implement and facilitate continuous monitoring, appropriate systems and frameworks are already developed and established.

Risk Management would be effective if its wisdom and principles are disseminated and inculcated as culture across all business lines, branches and support units of the Bank and to this effect, efforts are being made to improve risk awareness of staffs through training, workshops, coaching and other mechanisms.

In general, the Bank is in a position to fully exploit the benefits of risk management by avoiding or minimizing waste & cost and thereby enhance stakeholders' value in a sustainable manner.

5. Internal Control

While integrity and prudence are basically required on the part of Wegagen Bank's employees, internal control is mandatory. The major responsibility bestowed to this area of activity is to ensure existence of procedures and policies.

In this regard, special emphasis is given to legal requirements and directives, which normally are designed to promote good business practices acceptable to shareholders, depositors, borrowers and the society at large. It should be ensured that every aspect of the banking operations is conducted with integrity and professionalism.

The Bank's Control Function

- ✓ Promotes accuracy & reliability in accounting & operating data;
- ✓ Safeguards the Bank's resources against waste, fraud & inefficiency;
- ✓ Measures the extent of operating Department's compliance with existing policies & procedures, NBE directives, laws and regulations, and
- ✓ Evaluates the overall efficiency of operating functions.

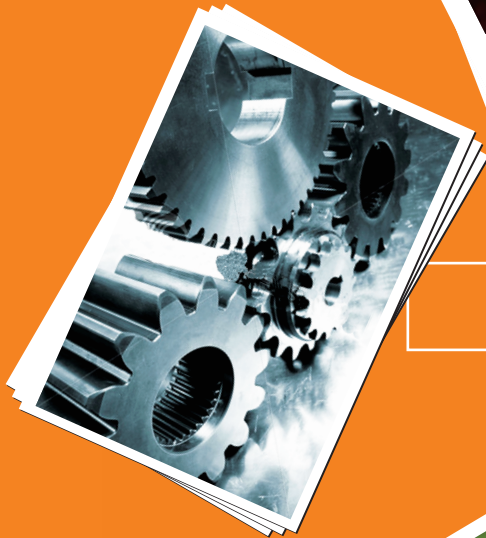
FINANCING DIFFERENT SECTORS



Agriculture



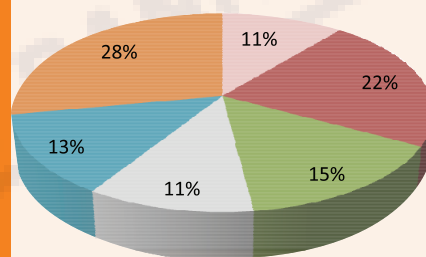
Export



Manufacturing Industry



Import



- Export & AAEB
- Import & AAIB
- Manufacturing
- Wholesales & Retail
- Transport
- Others

2011/2012

B. External Auditors' Report

Degefa Lemessa

Authorized Auditors Limited Partnership

Chartered Certified Accountants

AUDITORS REPORT TO THE SHAREHOLDERS OF WEGAGEN BANK SHARE COMPANY

We have audited the accompanying balance sheet of Wegagen Bank Share Company as of 30 June 2012 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

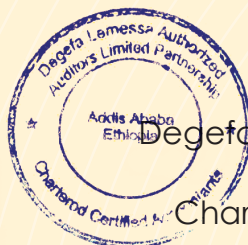
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly the financial position of the Bank as at 30 June 2012 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards applied on a consistent basis.

We have no comment to make on the Board of Directors Report relating to financial matters and pursuant to Article 375(2) of the Commercial Code of Ethiopia 1960, we recommend the approval of these financial statements.

Addis Ababa

October 16, 2012



Degefa Lemessa

**Degefa Lemessa Authorized Auditors
Limited Partnership
Chartered Certified Accountants**

**WEGAGEN BANK SHARE COMPANY
BALANCE SHEET
AS AT 30 JUNE 2012**

	Notes	Birr	2011 Birr
ASSETS			
Cash and bank balances with local banks	3	1,109,600,218	2,285,727,420
Reserve with national bank of Ethiopia		578,388,527	803,388,527
Deposit with foreign banks	4	913,317,516	1,051,971,662
Treasury bills-NBE		189,563,760	-
NBE bills		1,597,430,000	899,887,000
Loans and advances	5	3,478,972,954	2,777,875,585
Stocks of supplies	6	25,302,770	20,352,762
Other assets	7	99,295,002	69,185,028
Equity investment in Eth-Switch		5,030,000	-
Deferred charges	8	41,160,133	36,592,435
Leasehold land	9	16,429,505	16,429,506
Property, plant and equipment	10	292,664,403	99,527,453
TOTAL ASSETS		8,347,154,788	8,060,937,378
LIABILITIES			
Deposits from customers	11	5,428,296,886	5,733,716,853
Deposits from financial institutions	12	329,884,003	223,766,980
Other liabilities	13	505,505,925	385,944,254
Margin held on letter of credits		346,919,581	234,612,645
Provision for taxation	14(a)	122,622,767	134,852,023
Leasehold land payable		9,792,458	10,709,466
TOTAL LIABILITIES		6,743,021,620	6,723,602,221
CAPITAL AND RESERVE			
Paid-up capital	15	952,939,000	779,316,000
Share premium	16	25,424,100	25,424,100
Legal reserve	17	374,045,089	290,136,763
Retained earnings	18	251,724,979	242,458,294
		1,604,133,168	1,337,335,157
TOTAL CAPITAL, RESERVES AND LIABILITIES		8,347,154,788	8,060,937,378



**WEGAGEN BANK SHARE COMPANY
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	Birr	Birr	2011 Birr
INCOME				
Interest income	19		441,664,543	314,852,236
Less: Interest expense	20		(139,882,171)	(100,194,471)
Net interest income			301,782,372	214,657,765
Fees, charges and commission	21	122,769,950		248,516,005
Net gain in from dealing in foreign currencies		233,060,866		243,615,381
Other income	22	5,522,312		7,326,194
Income from card payment		1,677,838		619,232
			363,030,966	500,076,812
Net operating income			664,813,338	714,734,577
Reversal of /additional provision held for loans & advances			45,471,675	(35,256,376)
Provision for doubtful debts other than loans			(39,731)	(5,104,028)
			710,245,281	674,374,173
EXPENSES				
Salaries and benefits		144,385,986		120,492,787
General and administrative expenses	23	103,652,993		92,133,867
Visa charges		3,196,730		2,845,020
Directors' fee	24	646,500		652,000
Audit fee		107,000		120,750
			(251,989,209)	(216,244,424)
PROFIT BEFORE TAXATION			458,256,072	458,129,749
PROVISION FOR PROFIT TAX	14(a)		(122,622,767)	(134,852,023)
PROFIT AFTER TAXATION			335,633,305	323,277,726
TRANSFER TO LEGAL RESERVE			(83,908,326)	(80,819,432)
UNAPPROPRIATED PROFIT OF THE YEAR			251,724,979	242,458,294
EARNING PER SHARE			378	448

WEGAGEN BANK SHARE COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Paid up capital Birr	Share premium Birr	Legal reserve Birr	Special reserve Birr	Retained earnings Birr	Total Birr
BALANCE AS AT 1 JULY 2010	633,170,000	21,415,250	209,317,331	20,317,764	167,505,686	1,051,726,031
Dividend paid	-	-	-	(20,317,764)	(37,281,648)	(57,599,412)
Premium collected	-	4,008,850	-	-	-	4,008,850
Dividend capitalised 2008/2009	331,884	-	-	-	-	331,884
Dividend capitalised 2009/2010	125,789,480	-	-	-	(125,789,480)	-
New shares issued	20,024,636	-	-	-	-	20,024,636
Net profit for the year	-	-	-	-	323,277,726	323,277,726
Transfer to dividend payable	-	-	-	-	(4,434,558)	(4,434,558)
Transfer to legal reserve	-	-	80,819,432	-	(80,819,432)	-
Balance as at 30 June 2011	779,316,000	25,424,100	290,136,763	-	242,458,294	1,337,335,157
Dividend paid	-	-	-	-	(64,554,223)	(64,554,223)
Premium collected	-	-	-	-	-	-
Dividend capitalised	172,623,000	-	-	-	(172,623,000)	-
New shares issued	1,000,000.00	-	-	-	-	1,000,000
Net profit for the year	-	-	-	-	335,633,305	335,633,305
Transfer to dividend payable	-	-	-	-	(5,281,071)	(5,281,071)
Transfer to legal reserve	-	-	83,908,326	-	(83,908,326)	-
Balance as 30 June 2012	952,939,000	25,424,100	374,045,089	-	251,724,979	1,604,133,168

**WEGAGEN BANK SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012**

	Birr	Birr	2011 Birr
Cash flow from operating activities		458,256,072	458,129,749
Depreciation	17,357,748		13,455,605
Amortization	11,520,913		3,497,808
Gain on fixed assets disposal	(234,572)		(3,298,083)
Adjustment on fixed assets	351,339		63,769
Holding gain on exchange rate fluctuation	(122,074,999)		(278,231,669)
Provision for loans and advances	-		35,256,376
Reversal of provision for loans & advances held in previous years	(45,471,675)		-
Provision for doubtful debts other than loans	<u>39,731</u>		<u>5,104,028</u>
		<u>(138,511,515)</u>	<u>(224,152,166)</u>
Operating cash flow before change in working capital		319,744,557	233,977,583
Increase/decrease in stocks of supplies	(4,950,008)		8,731,194
Increase/decrease in other assets	(30,149,705)		127,997,164
Increase/decrease in loans and advances	(655,625,694)		(436,176,450)
Increase/decrease in deposits from customers	(305,419,967)		1,917,965,623
Increase/decrease in deposits from financial institutions	106,117,023		116,719,493
Increase/decrease in margin held	112,306,936		(97,562,195)
Increase/decrease in other liabilities	<u>118,715,159</u>		<u>55,369,379</u>
		<u>(659,006,256)</u>	<u>1,693,044,208</u>
		(339,261,699)	1,927,021,791
<u>TAXATION</u>			
Profit tax paid		<u>(134,852,023)</u>	<u>(94,187,072)</u>
		(474,113,722)	1,832,834,719
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>			
Fixed assets acquired	(210,846,036)		(46,113,455)
Deferred expenditures paid	(16,088,611)		(23,632,145)
Proceeds from disposal of fixed assets	234,572		2,481,000
Collection/ purchase of treasury bills	(189,563,760)		199,990,000
NBE bills purchased	(697,543,000)		(899,887,000)
Investment in other companies' shares	<u>(5,030,000)</u>		<u>-</u>
		(1,118,836,835)	(767,161,600)
FINANCING ACTIVITIES			

Shares issued	1,000,000		20,024,636
Share premium collected	-		4,008,850
Dividend paid	(68,988,781)		(61,112,037)
Leasehold obligation paid	<u>(917,008)</u>		<u>(355,623)</u>
		(68,905,789)	(37,434,174)
Holding gain on exchange rate fluctuation		<u>122,074,999</u>	<u>278,231,669</u>
Net cash out flow during the year		<u>(1,539,781,347)</u>	<u>1,306,470,614</u>
	Balance on	Increase/ (decrease)	Balance on
	30/06/2011	of the year	30/06/2012
	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
Cash and local bank balances with local bank	2,285,727,420	(1,176,127,202)	1,109,600,218
Reserve with National Bank of Ethiopia	803,388,527	(225,000,000)	578,388,527
Cash with foreign banks	<u>1,051,971,662</u>	<u>(138,654,146)</u>	<u>913,317,516</u>
	<u>4,141,087,609</u>	<u>(1,539,781,347)</u>	<u>2,601,306,261</u>

WEGAGEN BANK SHARE COMPANY

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2012

1. ESTABLISHMENT

Wegagen Bank S.Co. was formed in Ethiopia in 1997 and is registered as a public share holding Company in accordance with the provision of the licensing and supervision of Banking Business Proclamation No. 84/94 and the Commercial Code of Ethiopia 1960. The Bank has a network of 63 branches throughout the country and office for international money transfer companies operating under the Bank's agency in Ethiopia.

2. ACCOUNTING POLICIES

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

a. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Stand ("IFRS") promulgated by the International accounting standards board.

b. Basis of Accounting

The financial statements are prepared on historical cost basis. Financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost, except for foreign currencies, which are stated at closing exchange rate.

The Bank has consistently applied the accounting policies used in the previous years.

c. 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 created by the Bank providing money 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 recognize 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 asset 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 third party. As a result, a commitment to lend funds 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 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.

d. 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 SBB/43/2008 in determining the extent of provisions for impairment losses.

The Directive classified 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 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) Loss

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

<u>Loan Category</u>	<u>Extent of Provision Required</u>
1. Pass loans	1% of outstanding loan balances
2. Special mention loans	3% of the outstanding loan balances
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

e. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on the straight-line basis at the following rates per annum.

	<u>%</u>
Vehicle	20
Furniture, fittings & equipment	10
Computers	10
Building	5
Acquired property	5

For profit tax purpose, necessary adjustments are made to comply with the income tax proclamation 286/2002.(Note 14)

f. Revenue Recognition

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

Fee and commission income arises on financial services provided by the bank and are recognized as income when the services are provided to customers.

g. Foreign Currencies

Foreign currency transactions are recorded at rates of exchange ruling at the date of the transactions. Monetary assets denominated in foreign currencies, which are stated at historical cost, are translated at the exchange rates ruling at June 30, 2012. Foreign exchange differences arising on translation are recognized in the income statement.

h. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balance with the national Bank of Ethiopia, domestic and foreign banks payable on demand

i. Deferred Charges

Deferred charges represent expenses incurred for the establishment of Card Payment System Project & Core Banking & Data migration Project. Deferred charges are amortized over five years

j. Leasehold Land

The Bank acquired 2,254 sq.m lease hold land from Addis Ababa City Administration for the period of 90 years on which it is constructing its future head quarters building. The cost of the leasehold land will be amortized over the remaining lease period once the construction of the building is completed and put in to use.

k. Assets Awaiting for Resale

Collaterals seized or foreclosed by the bank are classified as asset awaiting for resale if their carrying amount will be received principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3 CASH AND BANK BALANCES

Cash on hand-Local currency
Cash on hand-Foreign currency
Cash on hand-ATM
Deposits with domestic banks
NBE payment & settlement account

	2011
<u>Birr</u>	<u>Birr</u>
497,236,923	608,681,820
68,160,265	67,014,680
5,814,086	-
223,458,868	492,772,799
314,930,076	1,117,258,121
<u>1,109,600,218</u>	<u>2,285,727,420</u>

4 DEPOSIT WITH FOREIGN BANKS

Correspondent bank accounts
Fixed deposits

	2011
<u>Birr</u>	<u>Birr</u>
806,813,535	713,809,662
106,503,981	338,162,000
<u>913,317,516</u>	<u>1,051,971,662</u>

5 LOANS AND ADVANCES

a) By maturity

Within 12 months
After 12 but before 24 months
After 24 months

	2011
<u>Birr</u>	<u>Birr</u>
1,000,225,524	957,342,706
663,489,249	925,292,173
1,865,504,239	975,685,147
3,529,219,012	2,858,320,026
36,455,626	51,728,918
3,565,674,639	2,910,048,944
(86,701,684)	(132,173,359)
<u>3,478,972,954</u>	<u>2,777,875,585</u>

Add: loans and advances under litigation

Less: provision for loans and advances

b) By sector

Agriculture
Building construction
Manufacturing
Hotel and tourism
Wholesale and retail
Health services
Transport vehicle
Miscellaneous domestic trade
Advance against import bills
Staff loans
Consumer loans
Automobile loans
Export
Import
Construction bridge loan
Mortgage loans
Transport loans

	2011
<u>Birr</u>	<u>Birr</u>
10,648,914	14,820,597
185,765,748	90,576,936
634,376,977	397,871,903
258,194,033	125,398,010
505,500,916	400,742,516
12,385,521	23,469,997
417,175,075	272,760,988
108,472,156	123,604,690
2,068,944	-
14,540,861	12,625,202
132,029	129,540
19,049,345	13,123,492
357,927,996	310,204,671
608,445,249	600,737,455
164,437,574	179,492,868
56,172,355	79,255,837
33,735,935	28,690,514

Merchandise loans	-	2,759,744
Personal loans	14,561,998	12,592,589
Revolving export credit	63,556,343	121,350,125
Loans under litigation	36,455,626	51,728,918
Special staff loans	62,071,043	48,112,352
	<u>3,565,674,638</u>	<u>2,910,048,944</u>
Less: Provision for loans and advances	<u>(86,701,684)</u>	<u>(132,173,359)</u>
	<u>3,478,972,954</u>	<u>2,777,875,585</u>

6 STOCKS OF SUPPLIES

	Birr	2011 Birr
Negotiable instruments	1,954,181	567,449
Check books	1,043,487	1,352,904
Stationery	4,664,211	2,655,318
Bank forms	3,110,783	1,935,884
Travelers' cheque	1,464,466	2,078,413
Memorial coins	360,100	558,400
Fixed assets in store	7,643,546	6,189,707
EMV Visa cards	3,528,965	3,529,707
Pin mailers	434,402	434,402
Private label cards	49,795	49,794
Revenue stamp	11,391	-
Others	1,037,443	1,000,784
	<u>25,302,770</u>	<u>20,352,762</u>

7 OTHER ASSETS

	Birr	2011 Birr
Payment and deposits	52,919,280	74,086,561
Receivable from NBE	1,873	1,775
Staff receivable	48,491	67,311
Accrued income receivables on NBE Bills	15,288,573	4,730,642
Receivable from Africa Insurance	1,194,255	1,366,597
Adjustment and refund account	836,832	-
Assets awaiting for sale	3,097,279	7,287,151
Receivable from branches under formation	5,606,655	761,984
Receivable from Kah Express Ltd	2,170,688	-
Visa settlement receivable	150,282	-
Western union	4,454,959	-
Inter-branch balances	2,094,153	78,809
Uncleared effects -foreign	3,299,516	-
Receivable from Head office units	238,456	-

Ethiopian Great Renaissance Dam contribution	2,513,768	-
Money Gram Int.money transfer	2,925,935	106,728
Penalty receivable on bounced checks	4,290	-
Charges on travellers checks	19,131	-
Others	<u>22,811,654</u>	<u>1,038,809</u>
	119,676,072	89,526,367
Less provision for bad debts	<u>(20,381,070)</u>	<u>(20,341,339)</u>
	<u>99,295,002</u>	<u>69,185,028</u>

8 DEFERRED CHARGES

COST	Opening balance Birr	Addition Birr	Final balance Birr
Card Payment System -ATM	17,489,042	2,480,169	19,969,212
Core banking and data migration	<u>24,026,912</u>	<u>13,608,442</u>	<u>37,635,353</u>
	<u>41,515,954</u>	<u>16,088,611</u>	<u>57,604,565</u>
AMORTIZATION			
Card Payment System -ATM	4,923,519	3,993,842	8,917,362
Core banking & data migration	<u>4,923,519</u>	<u>7,527,071</u>	<u>7,527,071</u>
	<u>4,923,519</u>	<u>11,520,913</u>	<u>16,444,432</u>
NET BOOK VALUE	<u>36,592,435</u>		<u>41,160,133</u>

9 LEASEHOLD LAND

The bank has obtained a leasehold land with a plot area of 2,254 sqm from Addis Ababa City administration, Land Development and Administration Authority on Nehassie 13 1997 E.C for a lease period of 90 years .

10 PROPERTY, PLANT AND EQUIPMENT

	Balance on 1/7/2011 Birr	Additions Birr	Adjustment Birr	Balance on 30/06/2012 Birr
COST				
Premises	4,867,001	15,000	-	4,882,001
Motor vehicles	49,243,754	19,232,799	-	68,476,553
Computer and accessories	59,995,535	12,618,446	-	72,613,981
Office and other equipment	25,185,198	5,891,623	(390,376)	30,686,445
Office furniture and fittings	22,128,267	8,020,770	-	30,149,037
Acquired property	621,766	-	-	621,766
Construction in progress	<u>2,371,331</u>	<u>165,067,398</u>	<u>-</u>	<u>167,438,729</u>
	<u>164,412,852</u>	<u>210,846,036</u>	<u>(390,376)</u>	<u>374,868,512</u>

DEPRECIATION

Premises	660,497	243,411	-	903,908
Motor vehicles	30,674,128	6,661,764	-	37,335,892
Computer and accessories	13,814,586	5,942,672	(39,038)	19,718,221
Office and other equipment	8,605,269	2,516,538	-	11,121,807
Office furniture and fittings	11,063,793	1,962,274	-	13,026,067
Acquired property	67,126	31,089	-	98,215
	<u>64,885,399</u>	<u>17,357,748</u>	<u>(39,038)</u>	<u>82,204,109</u>
NET BOOK VALUE	<u>99,527,453</u>			<u>292,664,403</u>

11 DEPOSITS FROM CUSTOMERS

(a) Payable on demand

	Birr	2011 Birr
Private sector	2,043,254,959	2,762,648,034
Public agencies and enterprise	3,006,827	18,009,815
Regional governments	3,955	815,563
Cooperatives and associates	10,320,890	10,045,226
Non-resident accounts-foreign currency	106,074,964	102,064,006
Non-transferrable Birr account-non residents	16,712,580	15,433,665
Transferable Birr account-non residents	7,120,723	5,204,685
Resident foreign currency account	4,876,551	37,778,875
Zero balance account	343	227
NOW account	36,430,714	-
Special demand deposits	9,218,305	118,327,937
Retention account	24,568,340	-
ECX payment and settlement account	35,220,567	19,915,478
	<u>2,296,809,718</u>	<u>3,090,243,511</u>

(b) Saving deposits

	Birr	2011 Birr
Private sector	2,525,851,127	2,235,795,202
Cooperatives and associates	80,575,706	71,367,593
Now account	-	27,254,315
Children trust fund	3,290,151	2,493,336
Special savings	5,786,124	5,554,978
Diaspora account	38,890	-
Provident fund	222,534,378	168,721,962
Non-interest bearing	27,548,254	4,808,412
Public agencies and enterprises	28,424	2,630
	<u>2,865,653,054</u>	<u>2,515,998,428</u>

(c) Term deposits

Private sector

Public agencies and enterprises

TOTAL DEPOSITS WITH CUSTOMERS

158,594,833	42,165,838
<u>107,239,281</u>	<u>85,309,076</u>
<u>265,834,114</u>	<u>127,474,914</u>
<u>5,428,296,886</u>	<u>5,733,716,853</u>

12 DEPOSITS FROM FINANCIAL INSTITUTIONS

Payable on demand

Saving deposits

Fixed time deposits

Birr	2011 Birr
32,743,920	26,682,614
7,369,577	13,439,612
<u>289,770,506</u>	<u>183,644,754</u>
<u>329,884,003</u>	<u>223,766,980</u>

13 OTHER LIABILITIES

Cashiers' payment order

Blocked current account

Unearned revenue

Accrued Interest on saving and deposits

Provision for annual leave

Old drafts payable

Local transfer payable

Payable to International money transfer agents

Provision for bonus

Exchange payable to NBE

Deposits for guarantees issued

Miscellaneous payable

Taxes and stamp duty charges

Service charges payables

Dividend payable

Foreign transfer payable

Guarantee fee payable

Staff payable

Court case

Income tax payable

Accrued charges

Pension payable

Directors' fee payable

Birr	2011 Birr
267,795,687	249,029,212
24,675,274	11,316,025
7,420,216	4,712,710
13,905,202	6,439,914
15,711,815	12,202,950
25,536,929	-
33,897,508	24,159,338
2,964,128	-
14,282,020	11,559,001
28,740,766	33,252,020
16,017,918	5,573,777
44,417,971	18,818,372
1,067,120	88,506
46,527	-
5,281,071	4,434,558
79,106	894,242
527,871	429,431
29,838	14,194
2,416,467	2,523,348
44,148	46,656
197,524	-
820	-
450,000	450,000
<u>505,505,925</u>	<u>385,944,254</u>

14 PROVISION FOR TAXATION

	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
(a) Profit before tax	458,256,072		458,129,749
Add: Depreciation for reporting purpose	17,318,711		13,455,605
Provision for doubtful debts other than loans	39,732		5,085,949
Entertainment	<u>263,107</u>		<u>197,933</u>
	475,877,622		476,869,236
Less: Depreciation for tax purpose 14(b) below	(26,093,498)		(21,052,377)
Interest earned on treasury bills	(2,228,379)		(24,000)
Interest earned on NBE bills	(37,628,505)		(4,730,642)
Interest earned on foreign bank deposits net of tax	(671,336)		(1,477,615)
Bad debts recovered	(513,348)		-
Non credit items written off	=		<u>(77,858)</u>
Taxable profit	<u>408,742,557</u>		<u>449,506,744</u>
Provision for taxation		122,622,767	134,852,023
Balance brought forward		134,852,023	94,187,072
Settlement during the year		<u>(134,852,023)</u>	<u>(94,187,072)</u>
		<u>122,622,767</u>	<u>134,852,023</u>

(b) DEPRECIATION FOR TAX PURPOSE

	Premise & acquired properties <u>Birr</u>	Computers & accessories <u>Birr</u>	Other business assets <u>Birr</u>	Total <u>Birr</u>
Balance brought forward	5,488,767	31,866,108	40,734,482	
Current year addition	15,000	12,618,446	33,145,192	
Adjustment	-	-	<u>(390,376)</u>	
Depreciation base	5,503,767	44,484,554	73,489,298	
Tax allowances 5%, 25% & 20%	<u>(274,500)</u>	<u>(11,121,138)</u>	<u>(14,697,860)</u>	<u>(26,093,498)</u>
Depreciation base carried forward	<u>5,503,767</u>	<u>33,363,416</u>	<u>58,791,438</u>	

15 PAID UP CAPITAL

	<u>Birr</u>	<u>2011 Birr</u>
Balance brought forward	779,316,000	633,170,000
Add: New shares issued	1,000,000	20,024,636
Capitalized dividend	<u>172,623,000</u>	<u>126,121,364</u>
	<u>952,939,000</u>	<u>779,316,000</u>

16 SHARE PREMIUM ACCOUNT

Balance brought forward
Premium on new shares issued

<u>Birr</u>	<u>2011 Birr</u>
25,424,100	21,415,250
=	4,008,850
<u>25,424,100</u>	<u>25,424,100</u>

17 LEGAL RESERVE

Balance brought forward
Current year transfer

<u>Birr</u>	<u>2011 Birr</u>
290,136,763	209,317,331
83,908,326	80,819,432
<u>374,045,089</u>	<u>290,136,763</u>

18 RETAINED EARNINGS

Balance brought forward
Capitalized dividend
Dividend paid in cash
Dividend transferred to liability
Net profit of the year

<u>Birr</u>	<u>2011 Birr</u>
242,458,294	167,505,686
(172,623,000)	(125,789,480)
(64,554,223)	(37,281,648)
(5,281,071)	(4,434,558)
<u>251,724,978</u>	<u>242,458,294</u>
<u>251,724,977</u>	<u>242,458,294</u>

19 INTEREST INCOME

Interest on loans and advances
Treasury bills
National Bank of Ethiopia bills
Interest on deposits with foreign banks

<u>Birr</u>	<u>2011 Birr</u>
401,136,323	308,619,979
2,228,379	24,000
37,628,505	4,730,642
671,336	1,477,615
<u>441,664,543</u>	<u>314,852,236</u>

20 INTEREST EXPENSE

Saving and deposits
Fixed time deposits
Special demand deposits

<u>Birr</u>	<u>2011 Birr</u>
114,255,397	88,646,523
25,221,854	11,061,605
404,920	486,343
<u>139,882,171</u>	<u>100,194,471</u>

21 COMMISSION, FEES AND CHARGES

	Birr	2011 Birr
Letter of credit	61,299,986	192,079,872
Letter of guarantees issued	33,696,580	30,462,643
Service charges-local	963,773	-
Local transfer and others	26,809,611	25,973,490
	<u>122,769,950</u>	<u>248,516,005</u>

22 OTHER INCOME

	Birr	2011 Birr
Rebates	697,742	585,901
Swift charges	700,313	890,166
Rent	139,293	95,448
Gain on disposal of old assets	234,572	3,298,083
Cash surplus	42,334	87,790
Estimation fee	476,865	572,954
Correspondent charges	3,313	-
Bad debts recovered	513,348	321,754
Sundries	2,714,532	1,474,098
	<u>5,522,312</u>	<u>7,326,194</u>

23 GENERAL AND ADMINISTRATIVE EXPENSE

	Birr	2011 Birr
Office rent	33,524,939	23,702,903
Printing and stationery	7,999,349	6,308,852
Communication	7,036,806	7,493,291
Fuel and lubricants	3,349,386	2,868,727
IT support charges	285,153	865,522
Advertising and publicity	5,643,873	3,648,100
Repair and maintenance	3,429,647	2,909,110
Insurance	3,403,093	3,342,051
Electricity and water	1,013,029	790,368
Membership subscription	393,150	216,934
Entertainment	263,107	197,933
Wages	329,767	178,546
Inauguration	185,592	210,785
Depreciation	17,318,711	13,455,605
Amortization	11,520,913	3,497,808
Cleaning supplies	520,417	463,578

Transportation	1,250,516	3,720,595
Guest house expense	23,040	13,219
License and inspection fee	10,750	7,050
Perdiem & travel	1,299,818	1,177,949
Leased line for computerization	2,313,719	1,788,332
Renovation	51,518	105,590
Correspondent charges	305,155	300,271
Money transfer charges	365,025	266,985
Fixed assets costing below birr 1000	530,507	692,015
Legal	175,044	-
Motor vehicle inspection	126,799	85,195
Municipality fees and taxes	144,130	94,830
Sundries	840,041	13,731,723
	<u>103,652,993</u>	<u>92,133,867</u>

24 DIRECTORS' FEE

	<u>Birr</u>	<u>2011 Birr</u>
Board meeting allowance	196,500	202,000
Board remuneration	450,000	450,000
	<u>646,500</u>	<u>652,000</u>

25 CONTINGENT LIABILITIES AND COMMITMENTS

	<u>Birr</u>	<u>2011 Birr</u>
Contingent liabilities		
Letter of Credit	811,978,646	704,237,083
Bank guarantees	906,529,132	622,252,876
	<u>1,718,507,777</u>	<u>1,326,489,959</u>

COMMITMENTS

	<u>Birr</u>	<u>2011 Birr</u>
Undrawn loans and advances approved but not disbursed	303,473,763	187,324,415
Unutilized merchandise revolving facility and unutilized advances against export bills	79,176,343	50,525,534
Unutilized overdraft facilities	222,907,582	168,744,659
	<u>605,557,688</u>	<u>406,594,608</u>

26 MATURITIES OF ASSETS AND LIABILITIES

	Total	Within 6 months	From 6 months to 1 year	over 1 year
	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
ASSETS				
Cash and bank balances	2,601,306,260	2,601,306,260	-	-
Treasury bills	189,563,760	189,563,760	-	-
NBE bills	1,597,430,000	-	-	1,597,430,000
Loans and advances	3,478,972,954	396,984,365	603,241,159	2,478,747,430
Socks and other assets	124,597,772	124,597,772	-	-
Equity investment	5,030,000	-	-	5,030,000
Deferred expenditures	41,160,133	-	-	41,160,133
Leasehold land	16,429,505	-	-	16,429,505
Fixed assets	<u>292,664,404</u>	<u>-</u>	<u>-</u>	<u>292,664,404</u>
TOTAL ASSETS	<u>8,347,154,788</u>	<u>3,312,452,157</u>	<u>603,241,159</u>	<u>4,431,461,473</u>

LIABILITIES AND SHAREHOLDERS' FUND

Customers deposit	5,428,296,886	5,171,952,331	256,344,555	-
Deposits in financial institutions	329,884,003	329,884,003	-	-
Other liabilities	505,505,925	505,505,925	-	-
Margin held on letters of credit	346,919,581	346,919,581	-	-
Obligation under leasehold land	9,792,458	-	388,590	9,403,868
Profit tax payable	122,622,767	122,622,767	-	-
Shareholders' fund	<u>1,604,133,168</u>	<u>-</u>	<u>-</u>	<u>1,604,133,168</u>
Total liabilities and shareholders' fund	<u>8,347,154,788</u>	<u>6,476,884,608</u>	<u>256,733,145</u>	<u>1,613,537,036</u>

27 RELATED PARTIES TRANSACTIONS

	<u>Birr</u>	<u>2011 Birr</u>
Loans and advances	113,797,687	347,826,226
Customers' deposits	428,154,002	458,844,550
Guarantees issued	104,633,073	20,987,611
Interest income	12,912,947	9,642,611
Interest expense	<u>1,390,749</u>	<u>4,019,834</u>
	<u>660,888,458</u>	<u>841,320,832</u>

28 MEMORANDUM ACCOUNTS

Loan and advances
written off, kept in
memo
Interest on non
performing loans
IBC-acceptance on
sight
OBC- own branches
and other bank's city
clearance
ODBC-sight
OBC-foreign
Stock of spare parts
and travelers check
Money bag
Uncollected penalty
charges on bounced
cheques
Used furniture &
equipment

	<u>Birr</u>	<u>2011 Birr</u>
	50,009,782	50,661,314
	27,379,846	20,395,549
	54,447,587	53,107,803
	22,987,176	398,979,530
	7,631,347	666,590
	322,758	2,686,943
	6,689,922	321,970
	7,092	6,629
	506,249	416,786
	87,772	-
	<u>170,069,533</u>	<u>527,243,114</u>

29 RISK MANAGEMENT

This note provides details of the Bank's exposure to risk and describes the methods used by management to manage such risk. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk, foreign exchange risk, interest rate risk and operational risk.

Credit Risk

Credit risk, both on and off balance sheet, is managed and monitored in accordance with defined credit policies and procedures. The credit worthiness of each counterpart is evaluated and appropriate credit limits are established. To reduce individual counter party credit risk the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. The bank has also established credit limits across industries and products, it regularly reviews its credit exposure. The bank loans are diversified against 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 management to ensure adequate liquidity is maintained.

Note 26 the financial statements analyses the contractual maturities of assets and liabilities. These have been determined on the basis of the remaining period to maturity as at the balance sheet date but do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

30. FOREIGN EXCHANGE RISK

Foreign exchange risks are controlled by maintaining major currencies whose exchange rate against the reporting currency has always been appreciating. The bank settles foreign exchange transactions of customers at the exchange rate ruling on the date of the transactions. Hence, the customers bear the cost of the increase in the exchange rates.

Interest Rate Risk

Interest rate risk is the risk that fair value or future cash flows will fluctuate because changes in the market interest rate. The bank often revises its lending rate across segments of the credit portfolio based on changes in the cost of fund, reserve requirement and the perceived risk in each credit portfolio segment to keep the overall profitability. This risk is managed by including a variable interest rate clause in the loans and advances contracts with customers.

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 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.

31. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit after tax but before legal reserve amounting to Birr 335,633,305 (2011: birr 323,277,726) by the weighted average number of shares outstanding during the year of 888,223 (2011:722,041)

32. COMPARATIVE FIGURES

Some of the previous year comparative figures have been rearranged in order to facilitate comparison.

Addresses of City Branch Offices

No.	Branch	Fixed Line	Fax	P.O. Box
1	Abakoran	011-278 1177/76	011-278 1146	51177
2	Abinet	011-278 0571/44	011-278 0551	1018
3	Africa Avenue	011-662 4772	011-662 4770	1018
4	Africa Union	011-554 7061/63	011-554 7062	43186
5	Arada	011-111 1074/61	011-111 1676	1018
6	Beklobet	011-466 3580/81	011-466 3608	101841
7	Bole	011-552 3524/011-553 9568	011-552 4455	10621110
8	Bole Medhanealem	011-661 6135/33	011-663 8968	713/1250
9	Cathedral	011-156 0002/60/51	011-156 0054	1018
10	CMC Area	011-647 9047/43	011-647 90 48	1018
11	Gerji	011-629 8141/14	011-629 8118	737/1110
12	Gerji Sunshine	011-629 0265/0016	011-629 0158	1018
13	Gofa	011-465 5816/17	011-465 4879	56810
14	Gofa Camp	011-466 8784/011-467 1174	011-416 5166	1018
15	H/Giorgis	011-111 2972/70	011-157 8499	24215
16	ILRI	011-645 9752/53	011-645 9755	1018
17	Kaliti	011-439 4285/86	011-439 4284	180
18	Kazanchis	011-554 5666/71	011-554 5665	1018
19	Kidist Mariam	011-157 0029/33/35	011-157 0259	31174
20	Merkato	011-275 2867/011-275 2119	011-275 2799	1080
21	Mesalemia	011-276 8611/011-276 5154	011-276 5142	26661
22	Meskel Flower	011-416 3760/8005	011-416 6189	1018
23	Meskel	011-551 6652/011-551 2728	011-551 6834	27571/1000
24	Sebara Babur	011-157 0186/011-157 0329	011-157 0040	20493
25	Shala Menafesha	011-618 9303/663- 2094	011- 663 0808	110705
26	Military Tera	011-213 4605	011-213 4609	186195
27	T/Haymanot	011-156 3813/12	011-156 3811	56734
28	Wellosefer	011-466 8006/93	011-466 8098	1018
29	Weyra Bethel	011-349 2184/011-349 5308	011-349 5536	1018
30	Wuhalimat	011-663 1518-17	011-662 5150	170201
31	IMTCO	011-663 2274/011-663 1617	011-663 1618	1018

Addresses of Outlying Branch Offices

No.	Branch	Fixed Line	Fax	P.O. Box
1	Adama	022-111 9055/86	022-112 6070	1900
2	Adigrat	034-445 2866/034-445 2790	034-445 2745	237
3	Adwa	034 771 4046/43	034-771 4047	105
4	Agaro	047 221 1031/50	047-221 1499	404
5	Alamata	034-774 0772/0264	034-774 0254	77
6	Axum	034-775 3631/95	034-775 3440	277
7	Bahir Dar	058-220 2038/39	058-220 2037	1125
8	Bishoftu	011-437 1062/25	011-437 1010	1721
9	Castle	034-440 2689/79/70	034-440 2697	1804
10	Dessie	033-111 3788/89	033-111 3790	1277
11	Dire Dawa	025 111 1702/025-111 0827	025-111 0841	107
12	Edaga Mekele	034-441 3666/22	034-441 3748	1090
13	Fasiledes	058-126 0022/23/20	058-126 0020	02
14	Gendawuha	058-331 0009/058-337 0010	058-331 0010	19
15	Gondar	058-111 4816/15	058-111 4620	02
16	Harar	025-666 4622/025-666 3623	025-666 9819	1434
17	Hawassa	046-220 2629/046-220 4172	046-220 5480	723
18	Hawelti	034-441 9674	034-441 9675	2141
19	Humera	034-448 0005/07	034-448 0006	38
20	Jijiga	025-775 7628/025-775 2057	025-775 2058	491
21	Jimma	047-111 6393/05	047-111 6301	1358
22	Kezira	025-111 0285/025 113 0371/72	025-113 0412	107
23	Kombolcha	033-551 0753/54	033-551 0323	332
24	Mehal Adama	022-111-12280/83/84/85	022-111 2285	1422
25	Mekelle	034-440 8933/34	034-440 3269	930
26	Metema Yohannes	058-231 1138/39	058-331 0278	491
27	Meyda Agame	034-445 1794	034-445 1788	237
28	Shashemene	046-110 3468/66	046-110 3469	623
29	Ruztera	025-112 4674	025-112 4675	249
30	Shire	034-444 2165/034-444 2424	034-444 2229	116
31	Tog Wajaale	025-882 0033/32	025-882 0034	1301
32	Tulu Bollo	011-342 0064/57	011-342 0065	15
33	Weliso	011-341 984/011-341 1617	011-341 0187	415
34	Yirgachefe	046-332 0553/046-332 0410	046-332 0552	118
35	Wukro	034-4430373/0683	034-443 0643	176



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