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## የባለአክሲዮኖች 4ተኛ መደበኛ ጠቅላላ ጉባኤ የስብሰባ ጥሪ

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### የመደበኛ ጠቅላላ ጉባኤው አጀንዳዎች

1. የጉባኤውን አጀንዳ ማጽደቅ፤
2. የተደረጉ የአክሲዮን ዝውውሮችን ማሳወቅ፤
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4. የውጭ አዲተሮችን ሪፖርት ማድመጥ፤
5. በዳይሬክተሮች ቦርድ እና በውጭ አዲተሮች ሪፖርቶች ላይ ተወያይቶ ማጽደቅ፤
6. በዘመኑ የተጣራ ትርፍ ድልድል ላይ ተወያይቶ መወሰን፤
7. የዳይሬክተሮች ቦርድ አባላት ወርሃዊ የትራንስፕራንሽን አበልና የአገልግሎት ክፍያ መወሰን፤
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9. የዳይሬክተሮች ቦርድ አባላት ጥቆማና ምርጫ አፈፃፀም መመሪያ ላይ ተወያይቶ ማጽደቅ፤
10. የዳይሬክተሮች ቦርድ አስመራጭ ኮሚቴ አባላትን ምርጫ ማካሄድ፤
11. የዳይሬክተሮች ቦርድ አስመራጭ ኮሚቴ አባላትን አበል መወሰን፤
12. የጉባኤውን ቃለጉባኤ ማጽደቅ።

### ማሳሰቢያ

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# BOARD OF DIRECTORS



**Nuredin Awol**  
*Chairman,  
Board of Directors*



**Getachew Nune**  
*Vice Chairman,  
Board of Directors*



**Simon Mechale**  
*Member*



**Melaku W/Mariam**  
*Member*



**Assefa Dukamo**  
*Member*



**Mathewos Assale**  
*Member*



**Haile Hamaro**  
*Member*



**Nitsuhwork Seifu**  
*Member*

# EXECUTIVE MANAGEMENT



**Addisu Habba**  
*President*



**Tesfaye Gorfu**  
*Director, International  
Banking Department*



**Kassa Mikoro**  
*Director, Credit Department*



**Betre Balcha**  
*Director, Retail Banking  
Department*



**Tsehaynesh Abbay**  
*Director, Accounts & Finance  
Department*



**Tesfaye Birru**  
*Director, Planning & Business  
Development Department*



**Dasa Gobe**  
*Director, HR & Support  
Services Department*



**Tilahun Temotewos**  
*Director, Information  
Technology Department*



**Belay Namaga**  
*Manager, Legal Service*



**Gezahegn Mitikie**  
*Director, Internal Audit  
Department*



**Tibebu Alula**  
*Manager, Risk Management  
& Compliance*

## MESSAGE FROM THE CHAIRPERSON



Distinguished Shareholders, on behalf of the Board of Directors and myself, it is my pleasure to welcome you to the Bank's 4th Annual General Meeting. I hereby present the Annual Report of Debub Global Bank S.C. along with Auditors' Report for the financial year ended June 30, 2016.

Financial year 2016 was an eventful year marked with significant global and local macroeconomic developments, which had affected our business undertakings. But, the resilience on our part has enabled us to successfully wither these headwinds.

The Bank has designed its Five- Year Strategic Plan and implemented in the financial year under review. With implementation of the plan, the Bank, in the course of providing quality banking services in the banking industry, it has achieved significant result in the year under review.

### ***Our Bank***

The quality of delivering better services is one of the critical pillars of Debub Global Bank's transformational efforts where the Board of Directors and Management are committed to generating consistent growth in earnings to ensure that we are able to return value to all stakeholders. One of the efforts was enhancing corporate banking excellence through implementation and enhancement of core banking system which enabled us to interface with ETSwitch for card banking and with National Bank of Ethiopia for cheque truncation for easy settlement of transactions and deliver services in more cost effective ways.

In the financial year the Bank maintained strong underlying performance in all parameters and registered unprecedented profit since its commencement of operation four years ago. The gross earnings of the Bank went up by 74.5 percent from Birr 111.2 million in 2015 to Birr 194.1 million in 2016. The total operating expenses though grew up by 42.4 percent on annual terms, its growth declined by 3 percentage points. Hence, the Bank, concluded a gross profit of Birr 68.0 million before deductions of tax expenses, surpassing that of the preceding financial year by more than two- hundred percent. We are pleased to state that earning per share improved from Birr 91.66 in 2015 to Birr 222.83 in 2016.

Customer deposits are up by 6.4 percent to Birr 871.8 million in 2016 from Birr 819.3 million in 2015. The Bank experienced accelerated growth in loan portfolio, with a 76.8 percent increase to Birr 599.3 million from Birr 334.9 million in 2015. NPL ratio stood below 2 percent. The improvement in our asset quality is an indication of our successful implementation of strong management measures through reinforced credit and risk management functions. With respect to the balance sheet of the Bank, total asset of the Bank at the end of the just ended fiscal period 2016 reached Birr 1.3 billion, showing a 13.0 percent annual growth. Paid-up capital of the Bank grew by 32.3 percent on annual terms, and the legal reserve reached Birr 21.9 million, registering an absolute growth of Birr 12.9 million (or 145%).

## ***Outlook for 2017***

According to the Ethiopian Government forecasts for the fiscal year of 2017, major macro-economic fundamentals are expected to show better results than it was in 2016. The real GDP is to improve and inflation to remain at single-digit. The growth and expansion of major industries in the country would create an opportunity to increase our asset base, which would definitively lead to growth in profit and earnings.

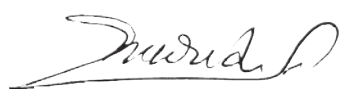
Our focus for 2017 will be on executing our strategic priorities and delivering our growth targets in the coming year with focus areas that include:

- ◇ The new increased level of capital requirement by NBE coupled with meeting the minimum threshold of Birr 500 million has forced the Bank to embark on aggressive capital raising initiatives to comply with the regulatory obligation and thereby support the Bank's growth plans and expectations;
- ◇ Strengthen our organizational capabilities and culture with enhancement of talent based recruitment and up grading the skill of the existing employees through the need based trainings;
- ◇ Improve our technology infrastructure by ensuring network stability and reliability as well as deploying new technological deliverables to augment the bank's products and services; and
- ◇ Increase external communication through well designed marketing and brand visibility.

In conclusion, 2016 has been challenging, motivating and successful year for the Bank, and the concerted effort of all stakeholders made it possible for us to sustain growth and profitability in the year under review. I am therefore very appreciative of our shareholders, who have shown commitment and remained with us along our journey. I thank our loyal customers for their continued trust and confidence in Debu Global Bank. My thanks are also extended to National Bank of Ethiopia for their continued support to the Bank.

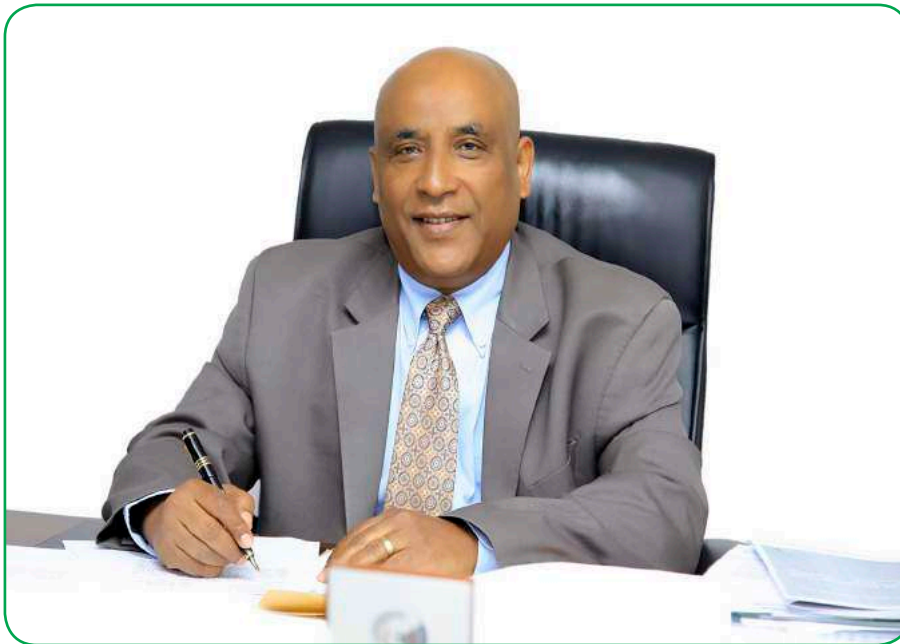
Last but not least, my appreciation also goes to the Bank's employees for their unreserved commitment to achieve the results we have registered in the fiscal year.

We all remain committed to achieving the strategic plan of our Bank.



Nuredin Awol  
Chairman, Board of Directors

## ***PRESIDENT'S MESSAGE***



### ***Dear Shareholders!***

It is a great pleasure for me to welcome esteemed shareholders of the 4th Annual General Meeting (AGM) of Debut Global Bank S.C. I am honored to present to you an overview of the Bank's performance for the financial year ended June 30, 2016 and preview our priorities in the fiscal year 2016/17.

I am pleased to inform you that we made significant strides in 2016 in making Debut Global Bank one of the competitive banks in the banking industry. This is notwithstanding a challenging macroeconomic climate and regulatory changes impacting major operation areas in the sector.

In 2016 our Bank had two main priorities. The first was to improve the Bank's efficiency by addressing operational challenges and implementing cost optimization initiatives. Our second priority was to develop a medium term strategic plan, which clearly outlines a roadmap to holding divergent trends experienced across the industry. I am pleased to say that we made considerable progress in these priorities. Our cost optimization programs have yielded direct impact on our bottom line as it was seen in the financial performance for the fiscal year 2015/16. In line with our strategic direction, the Bank began implementing its Five Year Strategic Plan (2015/16-2019/20), and remarkable achievements were registered in key strategic areas. Strategies on human resource management and development, increased marketing and promotion work and enhancement of core banking solutions further consolidated our effort to establish the Bank's position in the banking industry.

The Bank has continued to register encouraging results in terms of growth in profit since it reported profit in 2014. Gross earnings of the Bank increased by 74.5 percent from what it was in 2015 and reached to Birr 194.1 million. Operating expenses dipped by 3.1 percentage points from 2015. As a result of these, the Bank's profit before tax increased by more than two- hundred percent and reached Birr 68.0 million from Birr 22.6 million in 2015. Consequently, earning per share grew by more than 140 percent in 2016 compared to last fiscal year the same period.

A total of Birr 871.8 million had been mobilized from customers registering 6.4 percent annual growth. In terms of loans and advances, 76.8 percent increase were recorded and reached to Birr 599.3 million as at June 30, 2016. This was primarily attributed to our continued focus on driving business in key sectors of the economy including domestic trade services, export, manufacturing and others. Encouraging performance has also been observed on the asset quality, where non- performing loans ratio stood at below 2- percent, which evidenced the Bank's commitment to improving loan book quality and accelerating portfolio growth. Our balance sheet remained strong with total assets of Birr 1.3 billion, increased by 13.0 percent. The Bank's paid-up capital grew by 32.3 percent over the preceding year.

Looking forward to 2017, our focus will be on executing key elements of our strategies which will reflect sound business performances. Our customer experience is critical to our success, and we will continue to improve our operational and service effectiveness to ensure that the Bank remains become competitive in the industry. Accordingly the key priorities for 2017 will include:

- ◇ We continue to drive our business priorities, focusing on deposit base, client base, transactional income and capital mobilization;
- ◇ Optimization of our branch network with opening new branches in key locations in order to adequately serve our customers. Besides, we will intensify and deepen our focus on the personal banking segments;
- ◇ Introduction of more effective cost management and cost-to- income reduction to increase productivity and efficiency;
- ◇ Improve productivity and embed transformation through implementation of different digital banking services and to deliver effective services at all touch- points.

The Bank's Management team is unwaveringly committed to deliver priorities indicated above in 2017. On behalf of the management and staff, I would like to thank our esteemed shareholders and customers for your continued support and steadfast loyalty. My heartfelt appreciation goes to the Board of Directors, for their continued guidance, in setting the Bank to keep in the right direction. Instrumental support of National Bank of Ethiopia is also highly appreciated. I would also like to thank all our staff for their continued hard work throughout 2016 fiscal year which will be definitely enhanced with new vigor in the fiscal year of 2016/17.



Addisu Habba  
President



# 1. BOARD OF DIRECTORS' REPORT

The Board of Directors is pleased to present the Annual Performance Report of the Bank for the financial year ended 2015/16 at the Fourth Annual General Assembly to its respected shareholders. The first part attempts to give a broad picture of the major financial and non financial performances along with the future plans of the Bank. The second part of the report covers the Auditors' Report which contains the income statement, balance sheet, cash flow and associated notes.

In its 4<sup>th</sup> year of operation, the Bank recorded encouraging results in all key financial and non- financial parameters.

Highlights of operating results of the Bank for the current and preceding fiscal years are presented hereunder.

## 1.1 Financial Highlights

### Gross Earnings

Birr 194,062,691

### Profit before Tax

Birr 67,958,484

### Profit after Tax

Birr 51,691,380

### Major Profit or Loss Account Items

	2015/16	2014/15	% Change
Gross Earnings	194,062,691	111,180,600	74.5
Profit Before Tax	67,958,484	22,602,279	200.7
Profit After Tax	51,691,380	17,197,560	200.6
Earnings Per Share	222.83	91.66	143.1

### Major Balance Sheet Items

	2015/16	2014/15	% Change
Deposits from Customers'	871,760,128	819,343,358	6.4
Loans and Advances	599,313,795	338,903,933	76.8
Total Assets	1,291,959,979	1,143,591,688	13.0
Paid- up Capital	262,000,123	197,975,235	32.3

## 1.2 Non- Financial Highlights

	2015/16	2014/15	% Change
Customer Accounts	36,615	25,351	44.4
Branches	28	22	27.3
Employees	478	376	27.1
Correspondent Bank Accounts	2	2	---
Money Transfer Operators	7	6	16.7
Relationship Management Authorization (RMA)	58	49	18.4

## 2. OPERATIONAL HIGHLIGHTS

### 2.1 Deposit

The outstanding deposit of the Bank reached Birr 871.8 million as at June 30, 2016 from Birr 819.3 million compared to the same period previous year; indicating a growth of 6.4 percent.

Table 1: Breakdown of Deposits by Type

(In Thousands of Birr)

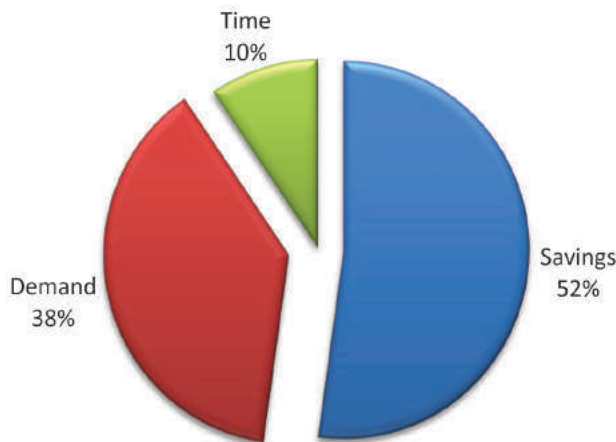
Deposit Type	Financial Year		% Change
	2015/16	2014/15	
Savings	455,126	374,305	21.6
Demand	333,389	330,049	1.0
Fixed Time	83,245	114,989	(27.6)
<b>Total</b>	<b>871,760</b>	<b>819,343</b>	<b>6.4</b>

Chart 1: Trends of Deposit by Type

Savings

Component wise, out of the total deposits saving deposit accounted for the major portion of the Bank’s deposit balance (52%) indicating that the Bank has stable funding sources. The remaining was shared among demand and fixed time deposits, where each held a share of 38% and 10% respectively.

**Chart 2: Share of Deposit by Type**



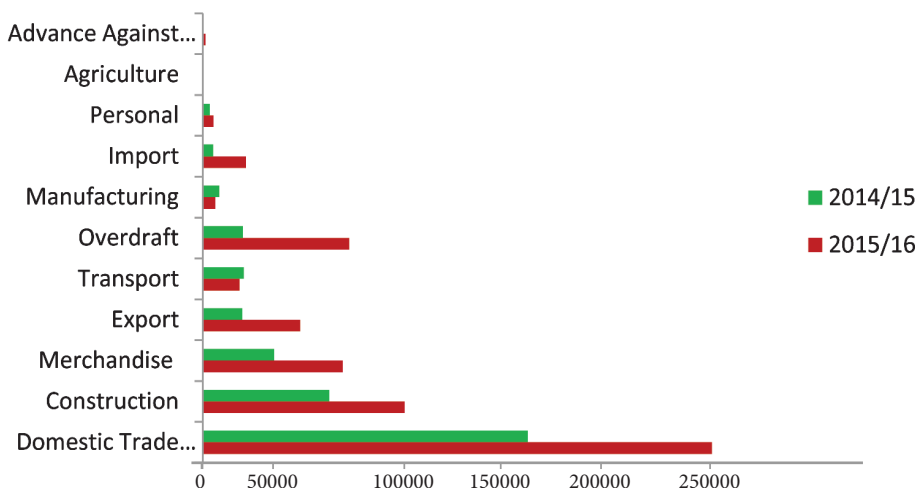
On the other hand, the Bank has about 36,615 customers in retail, commercial and corporate market segments and grew by 44.4 percent compared to last year’s performance; showing widened customer base and increased public confidence in the Bank.

**2.2 Credit Operations**

The Bank injected total fresh loans and advances of Birr 260.4 million in the year under review and the total outstanding loans and advances reached Birr 599.3 million markedly grew by 76.8 percent compared with the same period of last year.

The distribution of loans and advances by economic sector showed that, domestic trade and services accounted for 42.4 percent of the total loans and advances of the Bank, followed by construction, 16.8 percent, overdraft, 12.2 percent and merchandise, 11.7 percent. The remaining sectors took a share of 16.9 percent.

**Chart 3: Sectoral Distribution of Loans and Advances**



## 2.3 International Banking Services

As part of expanding its international trade service operations and remittances, the Bank works with renowned correspondent banks like Commerzbank Frankfurt Ag and Deutsche Bank Trust Company Americas, New York through opening correspondent accounts along with establishing a relationship Management Authorization (RMA) with 58 banks covering 31 countries.

During the fiscal year 2015/16, income generated from the international banking operations accounted for 27.4 percent of the total income; recording a growth of Birr 16.7 million over preceding year's performance.

Besides, to boost foreign currency generation through remittances, the Bank has established a relationship with seven international money transfer operators which include Western Union, MoneyGram, Dahabshil, Shift Financial, Ria , Transfast and Xpress money transfer operators

## 3. FINANCIAL PERFORMANCE

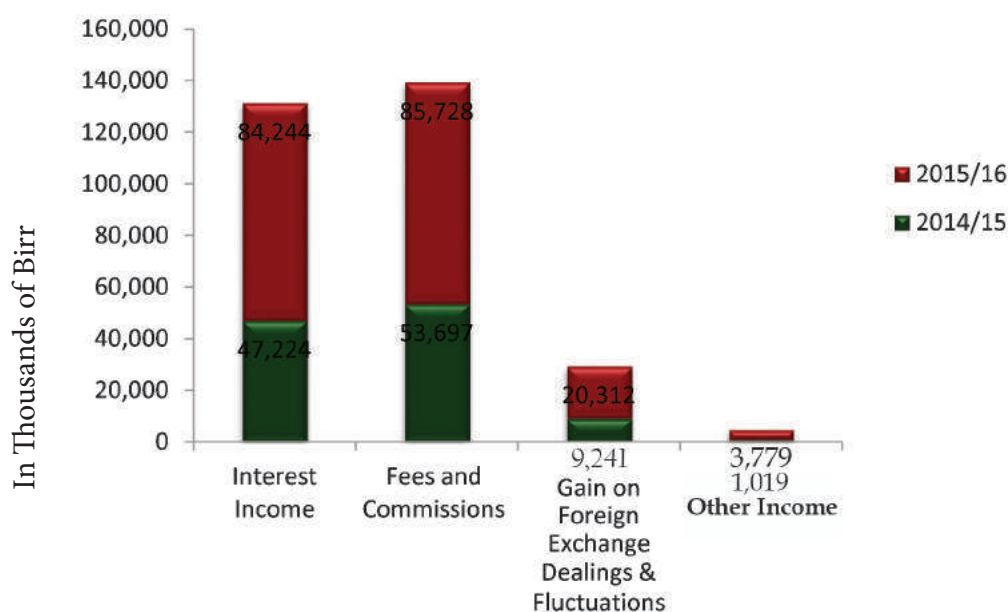
### 3.1 Income Analysis

In the reporting period, all income components revealed remarkable growth and generated a total income of Birr 194.1 million, indicating a 74.5 percent compared to the preceding year's performance. Interest income surged by 78.4 percent compared to the same period of last year contributed about 43.4 percent of the aggregate income in 2015/16. Similarly the Bank has undertaken several initiatives to boost its income such as increasing non- interest income. In the period, non- interest income grew by 71.7 percent compared with the same period of last year. Fees and commission income sources contributed 44.2 percent to the aggregate income.

Table 2: Major Income Categories

Particulars	2015/16	2014/15	Growth	
			Absolute	%
Interest Income	84,243,855	47,223,592	37,020,263	78.4
Fees and Commissions	85,727,816	53,697,112	32,030,704	59.7
Gain on Foreign Exchange Dealings & Fluctuations	20,312,351	9,240,615	11,071,736	119.8
Other Income	3,778,669	1,019,281	2,759,388	270.7
Total	194,062,691	111,180,600	82,882,091	74.5

Chart 4: The Constituents of Gross Earnings



### 3.2 Expenses Analysis

The total expenses of the Bank increased to Birr 37.5 million by the end of the fiscal year 2015/16 indicating 42.4 percent of growth compared to the same period of the preceding year, due to increase in operating expenses. Salary and benefits expenses took the highest share of 33.8 percent, followed by general and administrative expenses of 26.0 percent. The remaining expense components in total accounted for a share of 40.2 percent.

The growth in total expenses resulted from salary adjustments and increased cost of doing business. Huge outlays on items such as office rent surged the Bank's general expense positions by 26.3 percent over last year the same period.

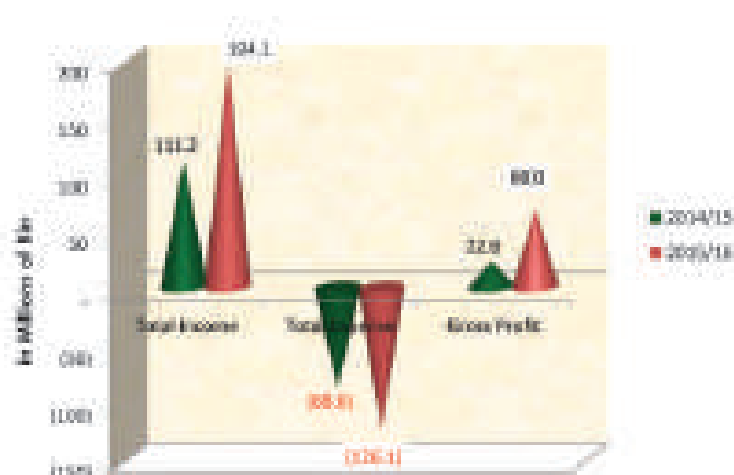
Table 3: Major Expense Categories

Particulars	2015/16	2014/15	Growth	
			Absolute	%
Salaries and Benefits	42,626,967	31,859,660	10,767,307	33.8
General and Administration	32,775,394	25,957,245	6,818,149	26.3
Interest Expense	25,256,807	20,553,924	4,702,883	22.9
Loss on Foreign Exchange Dealings and Fluctuations	7,036,848	1,411,029	5,625,819	398.7
Others	18,408,192	8,796,463	9,611,729	109.3
Total	126,104,208	88,578,321	37,525,887	42.4

### 3.3 Gross Profit

In the year ended June 30, 2016, the Bank has recorded profit before tax Birr 68 million, remarkably higher than the previous year's level of Birr 22.6 million and grew by more than two- hundred percent.

Chart 5: Growth of Gross Profit



### 3.4 Balance Sheet Analysis

The total asset of the Bank during the year stood at Birr 1.3 billion, showing a 13 percent annual growth, owing to rises in loans and advances (76.5 %) and NBE bills purchase (85.4%).

At the end of the year 2015/16, the total liability position of the Bank reached Birr 969.8 million, up by 4.9 percent from the same period of the preceding year. The largest portion of the total amount was customers' deposit, showing the Bank's encouraging effort in fund mobilization.

The total capital of the Bank reached Birr 322.1 million, out of which 81.3 percent (Birr 262 million) was paid-up capital while legal reserve and retained earnings represent 18.7 percent of the total.

## 4. Non-Financial Performance

The non-financial performance indicators are crucial elements that contribute to the growth of the Bank and meet its strategic objectives. In this regard, some of the notable achievements include human resource development, marketing and promotion and information technology are presented here under.

### 4.1 Human Resources Development

The total staff of the Bank increased by 102 and reached 478 from 376 a year ago, up by 27.1 percent. New recruitment for newly opened branches and filling key vacant posts at head office are the main factors for the growth.

In accordance with the Bank's policy of continuous development of its human resource, training undertaking to upgrade the skills and competencies of its staff on various banking fields for service and operational excellence were provided. 249 staff members in total were provided with these trainings. These were complemented by on the job training.

## 4.2 Marketing and Promotion

To meet the changing demands of our customers and easily reaching potential customers, the Bank has been engaged in promoting its products and services using various cost effective print and electronic media.

To persistently pursue growth, the Bank has improved its outreach and increased its customer base. During the financial year 2015/16 six new branches were opened, raising the number of branches to twenty eight (grew by 27.3 percent).

## 4.3 Information Technology

The Bank has shown very good progress following the implementation of the Core Banking Services (CBS), by introducing different digital banking services to its customers. Among the services, card banking is already completed and the service is going to be delivered in the next financial year to the Bank's customers. Interfacing the Bank with ECX, is also the other ongoing project.

The Bank has already interfaced its Core Banking with EthSwitch for card banking and with National Bank of Ethiopia for cheque truncation for easy settlement of cheque transactions. Further the Bank is also in the process of implementing agent banking and mobile banking services. Security and IT service management system are applied on the basis of internationally accepted standards and frameworks.

## 5. Looking Ahead

By taking into account what has been achieved so far as a stepping stone for the future, the Bank is planning to maintain its progress by fully implementing transformation agenda items pinpointed under the Five- Year Strategic Plan. These include increasing capital of the Bank, widening clientele base and achieving excellent customer services. Moreover, it is planned to launch alternative banking channels along with introduction of other new banking products and services.

The Bank will further concentrate on upgrading the skills of the staff by providing various training packages, which would help to enhance the technical, managerial and professional skills. Likewise, with the objective of increasing its outreaches, the Bank plans to expand its branch network in strategically selected locations throughout the country.



Partial view of the 3<sup>rd</sup> General meeting of shareholders



2015-16 Annual Management Meeting





**AUDITORS' REPORT  
AND  
ACCOUNTS**

**DEBUB GLOBAL BANK S.C.**  
**BANK INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**PRINCIPAL PLACE OF BUSINESS**

Place: Throughout Ethiopia  
P.O. Box: 100743, Addis Ababa, Ethiopia  
Head Office: In front of Ethiopian Customs Office  
Addis Ababa Stadium

**REGISTERED OFFICE**

Place: Addis Ababa, Ethiopia  
Head Office: In front of Ethiopian Customs Office,  
Addis Ababa Stadium  
P.O. Box: 100743, Addis Ababa, Ethiopia

**LAWYERS**

Place: Head Office , Addis Ababa, Ethiopia  
Section: Legal service  
Tel: 0115-58-12-59  
0118-96-57-60  
Fax: 0115-58-12-37

**BANKERS**

National Bank of Ethiopia  
P.O.Box : 5550  
Addis Ababa ,Ethiopia

United Bank S.C.  
P.O. Box 19963  
Addis Ababa, Ethiopia

Birhan International Bank S.C.  
P.O. Box 387 Code 1110  
Addis Ababa, Ethiopia

Commerz Bank AG  
Frankfurt AM Main DE  
Swift : COBADEFF

Deutsche Bank Trust Company Americas  
New York, NY US  
Swift ; BKTRUS33

**AUDITORS**

Tesfaye Teferi & Co.  
Chartered Certified Accountants (U.K)  
P.O. Box ; 102297  
Addis Ababa, Ethiopia



The notes to the accounts from an integral part of the financial statements



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**Debub Global Bank s.c**

☎ 011-558 1258 ☎ 011-467 40 87 ✉ 100743  
 አዲስ አበባ ኢትዮጵያ - Addis Ababa, Ethiopia

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

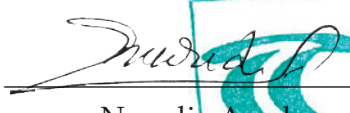
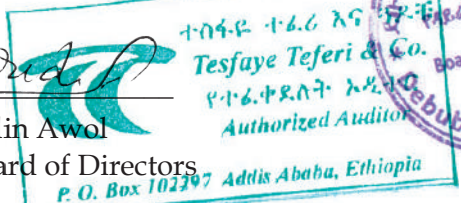

The Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008 require the Directors to prepare financial statements of each financial year that present fairly the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the Bank keeps a proper accounting record that discloses, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgments and estimates in conformity with Generally Accepted Accounting Principles (GAAP) and the requirements of the Banking Business Proclamation No. 592/2008. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its financial results in accordance with Generally Accepted Accounting Principles (GAAP).

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the Directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known risks across the Bank. While operating risk cannot be fully eliminated, the Bank endeavors to minimize it by ensuring the appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this Statement.

 Nuredin Awol Chairman Board of Directors	 Tesfaye Teferi & Co. የተፈቀደ ለውጭ Authorized Auditor P. O. Box 102297 Addis Ababa, Ethiopia	 Addisu Habba President
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The notes to the accounts from an integral part of the financial statements



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Tesfaye Teferi & Co.

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Chartered Certified Accountants (UK)

Mob. 251-091-121 91 04 Tel. 011-467 20 30/18 99 Fax. 011-467 19 62

☒ 102297 Addis Ababa, Ethiopia  
E-mail: teferi@ethionet.et

Authorized Auditor

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DEBUB GLOBAL BANK S.C.

We have audited the accompanying financial statements of Debut Global Bank Share Company, set out on pages 4 to 35 which comprise the statement of financial position as at June 30, 2016; the statement of profit or loss, statement of cash flows, and statement of changes in equity for the year then ended; and a summary of significant accounting policies and other explanatory notes.

### Directors' Responsibility for the Financial Statements

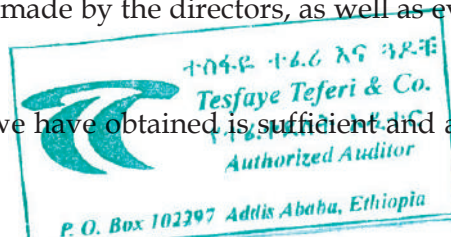
The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles (GAAP), the requirements of the Commercial Code of Ethiopia 1960, and the Banking Business Proclamation No. 592/2008 and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The notes to the accounts from an integral part of the financial statements



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Tesfaye Teferi & Co.

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Chartered Certified Accountants (UK)

Mob. 251-091-121 91 04 Tel. 011-467 20 30/18 99 Fax, 011-467 19 62

☒ 102297 Addis Ababa, Ethiopia  
E-mail: teferi@ethionet.et

Authorized Auditor

## Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at June 30, 2016 and of its statement of profit or loss and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles (GAAP), the requirements of the Commercial Code of Ethiopia 1960, and the Banking Business Proclamation No. 592/2008.

## Emphasis of Matter

We draw attention to the Licensing & Supervision of Banking Business Directive No SBB/50/2011 of the National Bank of Ethiopia which provides existing Banks (established before September 2011) should raise paid-up capital to Birr 500 million by June 30, 2016; and banks under formation are required to comply with the directive within five years after commencement of banking operation. The current paid up capital as shown in the statement of financial position is below this amount, it is about 50% of the required capital. Sanctions are provided in the directive, which might affect the Bank's going concern assumptions. Our opinion is not qualified in respect of this matter.

## Report on Other Legal and Regulatory Requirements

As required by the Commercial Code of Ethiopia 1960, Article 375(1), we reviewed the Board of Directors' report and we have no comments to make on the report in so far as it relates to these financial statements. We therefore, pursuant to article 375 (2) of the Commercial Code, recommend the financial statements for approval.



The notes to the accounts from an integral part of the financial statements

**DEBUB GLOBAL BANK S.C**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	<u>Note</u>	<u>Birr</u>	<u>Birr</u>	<u>2015</u> <u>Birr</u>
<b>INCOME</b>				
Interest Income	5		84,243,855	47,223,592
Interest Expense	6		(25,256,807)	(20,553,924)
Net Interest Income			58,987,048	26,669,668
Net fees and commission income	7		85,727,816	53,697,112
Gains on foreign exchange dealings & fluctuations	8	20,312,351		9,240,615
Loss on foreign exchange dealings & fluctuations	8	(7,036,848)		(1,411,029)
Net gain on foreign exchange dealings & fluctuations			13,275,503	7,829,586
Other income	9		3,778,669	1,019,281
Net operating income before provision for losses on loans & advances			161,769,036	89,215,647
Provision for losses on loans & advances	18 (c)	4,038,072		(238,733)
Provision for doubtful debts	17	1,998,792		-
			(6,036,864)	(238,733)
<b>NET OPERATING INCOME</b>			<b>155,732,172</b>	<b>88,976,914</b>
<b>EXPENSES</b>				
Salaries and benefits	10	42,626,966		31,859,660
General and administration expenses	11	32,775,393		25,957,245
Depreciation on plant, property & equipment	22	7,645,045		7,546,092
Amortization of establishment cost & intangible asset	21,23	4,412,021		649,288
Directors' fee		241,863		220,000
Audit fee		72,400		142,350
			87,773,688	(66,374,635)
<b>PROFIT BEFORE TAXATION</b>			<b>67,958,484</b>	<b>22,602,279</b>
<b>PROVISION FOR TAXATION</b>			<b>(16,267,104)</b>	<b>(5,404,719)</b>
			51,691,380	17,197,560
<b>TRANSFER TO LEGAL RESERVE</b>			<b>(12,922,845)</b>	<b>(4,299,390)</b>
			38,768,535	12,898,170
Board of Directors' remuneration paid			(459,863)	(450,000)
			38,308,672	12,448,170
<b>PROFIT/(LOSS) BROUGHT FORWARD</b>		12,004,636		(443,534)
<b>Less: Transfer to dividend payable</b>		(12,004,636)		-
			-	(443,534)
<b>RETAINED EARNING CARRIED FORWARD</b>			<b>38,308,672</b>	<b>12,004,636</b>
<b>EARNINGS PER SHARE</b>			<b>222.83</b>	<b>91.66</b>




The notes to the accounts from an integral part of the financial statements


**DEBUB GLOBAL BANK S.C.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

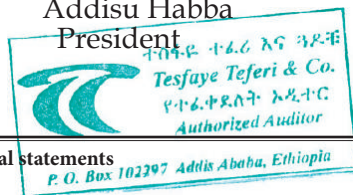
	<u>Note</u>	<u>Birr</u>	<u>Birr</u>	<u>2015</u> <u>Birr</u>
<b>ASSETS</b>				
Cash on hand	12		140,194,317	128,093,083
Deposit with other Banks	13		12,385,327	153,766,693
National Bank of Ethiopia-Other accounts	14		53,180,044	183,393,181
National Bank of Ethiopia - Bills	15		288,225,330	155,461,000
Reserve with National Bank of Ethiopia	16		44,000,000	42,000,000
Trade and other receivables	17		102,254,707	90,743,333
Loans and advances to customers	18		591,284,491	334,912,701
Investment in equity shares	19		16,627,196	8,780,000
Other assets	20		1,924,956	1,866,591
Establishment costs	21		757,502	1,406,790
Property, plant and equipment (Net)	22		29,837,910	43,168,316
Intangible asset	23		<u>11,288,199</u>	<u>-</u>
<b>TOTAL ASSETS</b>			<u>1,291,959,979</u>	<u>1,143,591,688</u>
<b>LIABILITIES &amp; EQUITIES</b>				
<b>Liabilities</b>				
Customers deposits	24		871,760,128	819,343,358
Margins held on letters of credit	25		38,377,384	49,356,390
Other liabilities	26		43,441,073	50,593,847
Profit tax payable	27		<u>16,236,251</u>	<u>5,404,719</u>
			<u>969,814,836</u>	<u>924,698,314</u>
<b>Capital and Reserves</b>				
Paid up capital	28	262,000,123		197,975,235
Legal reserve	29	21,836,348		8,913,503
Retained earnings		<u>38,308,672</u>		<u>12,004,636</u>
			<u>322,145,143</u>	<u>218,893,374</u>
<b>TOTAL LIABILITIES AND EQUITIES</b>			<u>1,291,959,979</u>	<u>1,143,591,688</u>

The financial statements on pages 4 to 35 were approved and authorized for issue by the board of directors on October 11, 2016 and were signed on its behalf by:

  
 Nuredin Awol  
 Chairman Board of Directors

  
 Addisu Habba  
 President

  
 Tsehaynesh Abbay  
 Director Accounts & Finance



The notes to the accounts from an integral part of the financial statements

**DEBUB GLOBAL BANK S.C**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	<u>Note</u>	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Profit for the year		67,958,484	22,602,279
<b>Adjustments:</b>			
Adjustment for non-cash items in profit before tax	30 (a)	17,642,871	8,355,428
Change in operating assets	30 (b)	(273,978,393)	37,018,250
Change in operating liabilities	30 (c)	34,284,990	225,938,153
Profit tax paid		(5,435,572)	(25,191)
Directors remuneration		(459,863)	(450,000)
<b>Sub total</b>		<u>(227,945,967)</u>	<u>270,836,640</u>
<b>Net cash provided by operating activities</b>		<u>(159,987,483)</u>	<u>293,438,919</u>
<b>Cash flow from investing activities</b>			
Dividend collected from equity investment		507,195	-
Proceeds from sale of property, plant and equipment		-	207,214
Purchase of property, plant and equipment		(9,421,707)	(31,803,931)
Purchase of equity shares		(7,847,196)	(8,780,000)
<b>Net cash provided by investing activities</b>		<u>(16,761,708)</u>	<u>(40,376,717)</u>
<b>Cash flow from financing activities</b>			
Dividend declared		(12,004,636)	-
Proceeds from subscribed shares		64,024,888	20,703,810
<b>Net cash provided by financing activities</b>		<u>52,020,252</u>	<u>20,703,810</u>
<b>(Decrease)/Increase in Cash and Bank balances</b>		<u>(124,728,939)</u>	<u>273,766,012</u>
Cash & bank balance as at June 30, 2015	30 (d)	<u>662,713,957</u>	<u>388,947,945</u>
Cash & bank balance as at June 30, 2016	30(d)	<u>537,985,018</u>	<u>662,713,957</u>



The notes to the accounts from an integral part of the financial statements



**DEBUB GLOBAL BANK S.C**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	<u>Paid up Capital</u> <u>Note</u>	<u>Legal Reserve</u> <u>Birr</u>	<u>Retained Earnings</u> <u>Birr</u>	<u>2015</u> <u>Birr</u>
Balance at July 1, 2013	127,455,000	-	(14,285,874)	113,169,126
Increase in paid up capital	49,816,425	-	-	49,816,425
Net profit for the year	-	-	18,456,453	18,456,453
Transfer to legal reserve	-	4,614,113	(4,614,113)	-
Balance at June 30, 2014	177,271,425	4,614,113	(443,534)	181,442,004
Increase in paid up capital	20,703,810	-	-	20,703,810
Net profit for the year	-	-	17,197,560	17,197,560
Transfer to legal reserve	-	4,299,390	(4,299,390)	-
Directors' remuneration paid	-	-	(450,000)	(450,000)
Balance at June 30, 2015	197,975,235	8,913,503	12,004,636	218,893,374
Changes in equity for 2016				
Increase in paid up capital	64,024,888	-	-	64,024,888
Transfer to dividend payable	-	-	(12,004,636)	(12,004,636)
Net profit for the year	-	-	51,691,380	51,691,380
Transfer to legal reserve	-	12,922,845	(12,922,845)	-
Directors' remuneration paid	-	-	(459,863)	(459,863)
Balance at June 30, 2016	<u>262,000,123</u>	<u>21,836,348</u>	<u>38,308,672</u>	<u>322,145,143</u>



The notes to the accounts from an integral part of the financial statements

**DEBUB GLOBAL BANK S.C.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

## **1. REPORTING ENTITY**

Debub Global Bank Share Company was established in Addis Ababa in August 2009 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 592/2008 and the Commercial Code of Ethiopia of 1960.

The Bank's principal activity is providing commercial Banking services. The registered address of the Bank is Addis Ababa, Ethiopia and has branches in Addis Ababa and other Regional States.

## **2. BASIS OF PREPARATION**

### **a) Accounting basis**

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP), as per letter reference No DGB/F19/374/2016 dated September 30, 2016, in which the Management declared its intention to continue preparing the financial statements as per GAAP until it makes the necessary preparation to make proper transition to International Financial Reporting Standards. The basis of accounting is accrual basis.

Relevant provisions of the Banking Business Proclamation No. 592/2008 and other Directives issued by the National Bank of Ethiopia are taken into account in preparing financial statements.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **i) Interest income and expense**

Interest income and expense for all interest bearing financial instruments are recognized within profit or loss on the accrual basis using the effective interest rate method.

Effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments or, where appropriate, a shorter period to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset or liability.

The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. When a loan account becomes non-performing, interest is suspended until it is realized. Interest income includes interest on loans and advances, placements with other Banks and investments in government securities, and is recognized in the period in which it is earned.



The notes to the accounts from an integral part of the financial statements

## ii) Fees and commission income

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

## iii) Establishment costs

These constitute costs incurred prior to the commencement of operation and are amortized over five years on straight line basis as per Banking Business Proclamation No 592/2008 - Article 21, Sub-Article 4.

## iv) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated in accordance with Income Tax Proclamation 286/2002 as follows:

	<u>Method</u>	<u>Rate</u>
Motor vehicles	Pooling	20%
Computer hardware and software	Pooling	25%
Other office equipment	Pooling	20%
Furniture and fittings	Pooling	20%

## v) Foreign currencies

### a) Functional and presentation currency

Ethiopian Birr is the functional currency. The financial statements are presented in Ethiopian Birr, which is the Bank's functional and presentation currency.

### b) Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the middle rates prevailing at that date.

Non-monetary items that are measured at historical cost in a foreign currency are translated to Birr on the initial date of transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through profit or loss.



## vi) Loans and advances

The Bank initially recognizes loans and advances on the date at which they originated.

### i. Identification and measurement of un-collectability of loans

When there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loan, such loans and advances are shown at the gross amount adjusted for any provision for losses. The amount of the provision is calculated as per the requirements in the Licensing & Supervision of Banking Business Directive No SBB/43/2008 of the National Bank of Ethiopia, which is as follows:

Classification	%age of net recoverable amount
(i) <b>Pass loans</b> - Loans and advances that 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.	1 %
(ii) <b>Special mention</b> - Any loan or advance past due 30 or more days, but less than 90 days.	3%
(iii) <b>Substandard</b> - Non-performing loans or advances past due 90 or more days but less than 180 days.	20%
(iv) <b>Doubtful</b> - Non- performing loans or advances past due 180 or more days but less than 360 days.	50%
(v) <b>Loss</b> - Non- performing loans or advances past due 360 days.	100%

The net loan balance is the outstanding balance less the net recovery value of the collateral. When a loan is deemed uncollectable, it is written off against the related provision for loan loss upon the decision of the Board of Directors.

When a subsequent event causes the amount of loan loss to decrease, the loss is reversed through the income statement.

### ii. Renegotiated/restructured loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

As per the Licensing & Supervision of Banking Business Directive No SBB/43/2008 of the National Bank of Ethiopia renegotiated term loans are classified as sub-standard unless:

**Term loans:** equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and: in case of terms loans with monthly or quarterly installment repayments, at least three consecutive repayments are made on a consistent and timely basis; in the case of loans with semi-annual installment repayments, at least two consecutive repayments are made; and in the case of loans with annual installment repayments, at least one repayment is made.



The notes to the accounts from an integral part of the financial statements

**Over draft facilities:** equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the account shows at a minimum a nil balance at least once, or a turnover rate of once the approved limit.

**Merchandise loans:** physical inventory of the merchandise taken by the Bank at the time of renegotiation shows that the outstanding principal loan and interest thereof are fully covered and the safety margin determined following the inventory is at least not lower than the margin stated in the loan contract entered into by the Bank and the borrower at the time of initial extensions of the loan.

As per the directive, rescheduling, restructuring or renegotiating short or medium term loan to a borrower cannot be done more than three iterations. In the case of second iteration, the Bank, in addition to full amount of interest in arrears, is required to collect 25% and in the case of third iteration 50% of outstanding principal balance in cash. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

## **vii) Liabilities**

The Bank recognizes deposits and debt securities on the date at which they originated. All other financial liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

## **viii) Legal reserve**

The legal reserve which is a statutory reserve to which no less than 25% of the net profits after taxation shall be transferred each year until such fund is equal to the capital. When the legal reserve equals the capital of the Bank, the amount to be transferred to the legal reserve account shall be 10% of the annual net profit.

## **ix) Taxation**

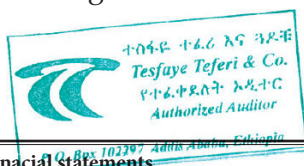
Current taxation is provided as per the provision of the Income Tax Proclamation 286/2002 on the basis of the results for the year as shown in the financial statements.

## **x) Pension scheme**

Employees are included in Private Organizations Employees Pension Scheme to which the Bank and employees contribute 11% and 7% of the individual monthly salaries, respectively. These contributions are charged to profit or loss.

## **xi) Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.



#### 4. CRITICAL ACCOUNTING ESTIMATES , JUDGEMENTS AND ASSUMPTIONS

The preparation of the Bank’s financial statements requires management to make judgments estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Bank based its assumption and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

##### *Provision for losses on loans and advances*

The Bank reviews its loan portfolios to assess un-collectability regularly. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

##### *Going concern*

The Bank’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern, except that it has to make significant effort to reach the minimum capital requirement. However, the financial statements continue to be prepared on going concern basis.

#### 5. INTEREST EXPENSE

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Loans and advances	63,130,302	40,501,536
National Bank of Ethiopia bills- Held to maturity	6,593,383	3,626,501
Deposits with local Banks	6,897,365	1,475,983
Overdraft	6,461,831	1,452,893
Deposits with foreign Banks	8,802	11,831
Advance on letters of credit	<u>1,152,172</u>	<u>154,848</u>
	<u>84,243,855</u>	<u>47,223,592</u>



The notes to the accounts from an integral part of the financial statements

## 6. INTEREST EXPENSE

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Interest on savings deposits	15,736,907	8,049,436
Interest on special saving	914,188	1,110,191
Interest on fixed time deposits	7,244,968	10,923,064
Interest on National Bank Borrowing	1,360,744	471,233
	<u>25,256,807</u>	<u>20,553,924</u>

## 7. FEES AND COMMISSION INCOME

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Commission income	57,682,405	30,116,543
Service income	25,922,698	23,259,529
Share subscription fee	1,951,013	195,780
Inspection and estimation fee	171,700	125,260
	<u>85,727,816</u>	<u>53,697,112</u>

## 8. GAIN ON FOREIGN EXCHANGE DEALINGS & FLUCTUATIONS

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Gain from foreign exchange rate fluctuation	20,241,723	8,869,243
Gain from foreign exchange dealings	69,638	329,272
Gain from foreign currency notes	990	42,100
	<u>20,312,351</u>	<u>9,240,615</u>
<b>Less:</b>		
Loss from foreign exchange rate fluctuation	6,420,317	1,197,120
Loss from foreign exchange dealings	616,391	203,409
Loss from foreign currency notes	140	10,500
	<u>(7,036,848)</u>	<u>(1,411,029)</u>
Net gain from foreign exchanges dealings & fluctuations	<u>13,275,503</u>	<u>7,829,586</u>

## 9. OTHER INCOME

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Penalty charge	2,235,606	374,392
Sundries	628,791	250,755
Dividend earned on investment	507,195	-
Swift charge	283,760	128,150
Communication charges	123,317	169,284
Gain on disposal of old assets	-	96,700
	<u>3,778,669</u>	<u>1,019,281</u>



The notes to the accounts from an integral part of the financial statements

## 10. SALARIES AND BENEFITS

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Clerical staff salaries	22,181,881	17,819,910
Non-clerical staff salaries	4,652,096	3,834,019
Fuel and acting allowances	4,140,839	3,432,152
Pension fund	2,952,867	2,431,482
Leave & compensation pay	2,248,344	668,990
Other allowances	1,607,293	1,466,842
Bonus	1,536,699	-
Cash indemnity allowance	681,521	535,579
Medical	638,801	434,591
Uniforms	621,346	59,878
Overtime	445,588	446,748
Training fee	433,958	129,297
Contractual staff salaries	367,402	507,758
Staff insurance	<u>118,331</u>	<u>92,414</u>
	<u>42,626,966</u>	<u>31,859,660</u>

## 11. GENERAL AND ADMINISTRATION

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Office rent	17,881,709	14,297,548
Advertisement	1,766,584	1,568,982
Stationery and office supplies	1,490,549	1,390,808
Communication	1,068,070	1,233,866
Broad band internet and Website	1,387,318	18,863
Share commission fee	1,127,900	-
Security Service	1,143,813	-
Transport and travel	900,717	1,390,175
Bank charges	855,749	360,017
Repair and maintenance	746,502	686,256
Annual reception	659,773	539,345
Fuel and lubricants	644,571	856,427
Representation allowance	577,510	491,910
Cleaning	417,144	242,825
Insurance	380,238	265,425
Swift charge	170,242	174,683
Membership fee	169,854	153,354
Internet and network installation	153,798	411,028
Consultancy	145,107	36,277
Entertainment	143,612	252,294



The notes to the accounts from an integral part of the financial statements



	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Donations and contributions	126,863	273,500
Utilities	96,654	103,156
Wages	94,488	132,231
Supplies	53,358	111,015
Motor vehicle inspection fee	15,631	11,414
Parking	15,001	19,958
License fee	14,000	19,500
Project allowance	-	283,852
Share subscription fee	-	187,500
Others	<u>528,638</u>	<u>445,036</u>
	<u>32,775,393</u>	<u>25,957,245</u>

## 12. CASH ON HAND

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Local currency	138,961,556	125,763,700
Foreign currency	<u>1,232,761</u>	<u>2,329,383</u>
	<u>140,194,317</u>	<u>128,093,083</u>

## 13. DEPOSIT WITH OTHER BANKS

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Deposit with local commercial Banks :-		
United Bank S.C	795,165	112,222,291
Birhan International Bank S.C	<u>147,810</u>	-
	<u>942,975</u>	<u>112,222,291</u>
Deposit with foreign Banks		
Deutsch Bank Trust Company Americas – NY US	1,443,896	34,464,882
Commerze Bank AG	<u>9,998,456</u>	<u>7,079,520</u>
	<u>11,442,352</u>	<u>41,544,402</u>
	<u>12,385,327</u>	<u>153,766,693</u>

## 14. NATIONAL BANK OF ETHIOPIA - OTHER ACCOUNTS

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Issue account	35,410,600	108,661,400
Payment and settlement account	<u>17,769,444</u>	<u>74,731,781</u>
	<u>53,180,044</u>	<u>183,393,181</u>



The notes to the accounts from an integral part of the financial statements

## 15. NATIONAL BANK OF ETHIOPIA - BILLS

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Bills held to maturity at 3% p.a		
▪ maturing during the year ended 31 December 2017	10,665,000	10,665,000
▪ maturing during the year ended 30 December 2018	67,200,000	67,200,000
▪ maturing during the year ended 30 December 2019	53,357,000	53,357,000
▪ maturing during the year ended 30 December 2020	115,675,250	24,239,000
▪ maturing during the year ended 30 June 2021	<u>41,328,080</u>	-
	<u>288,225,330</u>	<u>155,461,000</u>

## 16. RESERVE WITH NATIONAL BANK OF ETHIOPIA

In accordance with Licensing & Supervision of Banking Business Directive No SBB/55/2013D of the National Bank of Ethiopia, the Bank is required to maintain a non-interest bearing reserve account balance equivalent to 5% of the total of Birr and Foreign Currency deposit liabilities held in the form of demand (current) deposits, saving deposits and time deposits less cash items in the process of collection. This requirement is tested every week. As at the balance sheet date, the reserve balance stood at 5% of net deposits, which complies with the directive. These funds are not available to finance the Bank's day to day operations.

## 17. TRADE AND OTHER RECEIVABLES

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Prepayments	47,521,060	53,967,930
Un-cleared effects foreign	24,138,228	15,949,726
Un-cleared effects local	8,404,163	5,033,467
Interest receivable	4,242,901	2,313,350
Subscription receivable	-	364,220
Rent for branches under establishment	11,990,989	-
Sundry receivable	<u>7,956,158</u>	<u>13,114,640</u>
	104,253,499	90,743,333
<b>Less:-</b> Provision for doubtful debts	<u>(1,998,792)</u>	-
	<u>102,254,707</u>	<u>90,743,333</u>



The notes to the accounts from an integral part of the financial statements

## 18. LOANS AND ADVANCES TO CUSTOMERS

a) The breakdown of this balance is as follows:

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Domestic trade and services	254,002,554	162,163,280
Construction	100,640,427	63,190,701
Merchandise	69,838,965	35,558,656
Export	48,566,887	19,701,902
Transport	18,320,195	20,455,876
Overdraft	73,030,595	19,970,701
Manufacturing	6,260,062	8,240,311
Import	21,542,700	5,188,710
Personal	5,343,336	3,473,757
Agriculture	323,501	515,093
Advance against import bills	<u>1,444,573</u>	<u>444,946</u>
	599,313,795	338,903,933
<u>Less: Provision for doubtful debts and advances</u>	<u>(8,029,304)</u>	<u>(3,991,232)</u>
	<u>591,284,491</u>	<u>334,912,701</u>

b) The maturity of the above gross loan is as follows:

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
<b>Maturing</b>		
Within three month	64,820,556	51,777,610
Within 3-12 months	122,267,588	91,940,864
Above one year	<u>412,225,651</u>	<u>195,185,459</u>
	<u>599,313,795</u>	<u>338,903,933</u>

c) The provision balance was accumulated as follows:

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Balance at the beginning of the year	3,991,232	3,752,499
Provisions in the year	<u>4,038,072</u>	<u>238,733</u>
Balance at the end of the year	<u>8,029,304</u>	<u>3,991,232</u>



The notes to the accounts from an integral part of the financial statements

## 19. INVESTMENT IN EQUITY SHARES

The Bank has invested in the ordinary shares of the following companies: Investments are valued at historical cost.

	<u>No of shares</u>	<u>Par value Birr</u>	<u>Total value Birr</u>
Ethio Switch Share Company	11,370	1,000	11,370,000
Lucy Insurance Share Company.	4,257	1,000	4,257,196
AODAOE Inclusive Finance Technology S.C.	1,000	1,000	<u>1,000,000</u>
			<u>16,627,196</u>

## 20. OTHER ASSETS

Other assets balance constitutes inventory of consumable & used assets. Inventory is valued at historical cost.

	<u>Birr</u>	<u>2015 Birr</u>
Stationary stock account Head Office	1,276,073	1,145,849
Other stock	337,110	387,053
Pass books & CPOs	117,111	234,619
Cheque books	125,349	74,214
Asset waiting for resale	42,124	7,356
Uniform	<u>27,189</u>	<u>17,500</u>
	<u>1,924,956</u>	<u>1,866,591</u>

## 21. ESTABLISHMENT COST

	<u>Birr</u>	<u>Birr</u>	<u>2015 Birr</u>
Establishment cost at 30-06-2014		3,246,439	<u>3,246,439</u>
<u>Less:-</u> Amortization brought forward	1,839,649		1,190,361
Current year amortization	<u>649,288</u>		649,288
		<u>(2,488,937)</u>	<u>1,839,649</u>
		<u>757,502</u>	<u>1,406,790</u>



The notes to the accounts from an integral part of the financial statements

## 22. PLANT, PROPERTY & EQUIPMENT

	<u>Transfer/ Balance at 30/06/15</u>	<u>Additions</u>	<u>Transfer/ Disposal</u>	<u>Balance at 30/06/16</u>
<b>COST</b>	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
Motor vehicles	16,633,856	4,131,485	-	20,765,341
Office and other equipment	6,753,474	25,149	947,832	7,726,455
Furniture and fittings	7,137,169	759,110	895,458	8,791,737
Computer accessories	13,546,495	7,381	1,695,692	15,249,568
Fixed assets at stores	2,989,327	2,624,585	(3,616,201)	1,997,711
Core Banking system under installation	<u>13,176,935</u>	<u>1,873,997</u>	<u>(15,050,932)</u>	<u>-</u>
	<u>60,237,256</u>	<u>9,421,707</u>	<u>(15,128,151)</u>	<u>54,530,812</u>

## ACCUMULATED DEPRECIATION

Motor vehicles	7,332,956	2,686,477	-	10,019,433
Office and other equipment	2,452,868	1,057,730	(15,064)	3,495,534
Furniture and fittings	2,993,465	1,160,859	(6,019)	4,148,305
Computer accessories	<u>4,289,651</u>	<u>2,739,979</u>	<u>-</u>	<u>7,029,630</u>
	<u>17,068,940</u>	<u>7,645,045</u>	<u>(21,083)</u>	<u>24,692,902</u>
Net book value	<u>43,168,316</u>			<u>29,837,910</u>

## 23. INTANGIBLE ASSETS

Core Banking system software installed	<u>Birr</u>
	15,050,932
<u>Less: Amortization for the year</u>	<u>(3,762,733)</u>
	<u>11,288,199</u>

## 24. CUSTOMER DEPOSITS

	<u>Birr</u>	<u>2015 Birr</u>
<b>Demand deposits</b>		
Private and individuals	285,147,458	285,277,795
Cooperatives and associations	36,517,737	22,544,323
Retention foreign currency – Account A	5,784,868	141,372
Non-resident foreign currency accounts	3,499,698	7,429,875
Domestic Banks & other Financial Institutions	2,019,636	13,338,084
Public agencies and Enterprises	381,932	131,747
Retention foreign currency – Account B	<u>37,837</u>	<u>1,185,947</u>
	<u>333,389,166</u>	<u>330,049,143</u>



The notes to the accounts from an integral part of the financial statements

		<u>2015</u>
	<u>Birr</u>	<u>Birr</u>
<b>Savings deposits</b>		
Private and individuals	322,617,147	263,731,186
Savings for golden aged people	78,318,540	32,707,201
Non-interest bearing	23,217,139	29,116,883
Special Public agencies and enterprises	21,489,208	27,921,824
Cooperatives and associations	2,824,305	2,970,900
Special Domestic Banks and Other Financial Institutions	2,736,315	14,916,635
Special Cooperatives and Associations	2,701,801	2,436,761
Saving for children	812,134	127,499
Savings for youth	405,659	326,322
Public agencies and enterprises	2,938	45,402
Retirement child education & credit facility	300	4,050
Special public Agencies & Enterprises	<u>55</u>	<u>102</u>
	<u>455,125,541</u>	<u>374,304,765</u>
<b>Fixed time deposits</b>		
Commercial Banks and Other Financial Institutions	65,990,250	102,989,450
Private and Individuals	12,255,171	12,000,000
Cooperatives	<u>5,000,000</u>	<u>-</u>
	<u>83,245,421</u>	<u>114,989,450</u>
Total of customers deposit	<u>871,760,128</u>	<u>819,343,358</u>

## 25. MARGIN HELD ON LETTER OF CREDIT

These represents cash deducted from customers account for new letters of credit issued/ opened on behalf of customers and placed under other payables to serve as collateral against the letters of credit issued.

## 26. OTHER LIABILITIES

		<u>2015</u>
	<u>Birr</u>	<u>Birr</u>
C.P.O's and certified cheques issued	21,333,338	11,926,360
Accruals	8,186,182	6,426,173
IBC document payable to correspondent banks	7,046,992	16,787,684
Sundry payable	1,882,870	8,814,455
Dividend payable	1,696,649	-
Commission	1,328,462	2,722,869
Taxes payable	1,206,083	1,185,482
TTs and money transfer payables	403,470	259,901
Blocked accounts	357,027	345,044
Inter branch accounts	-	<u>2,125,879</u>
	<u>43,441,073</u>	<u>50,593,847</u>



The notes to the accounts from an integral part of the financial statements

## 27. PROFIT TAX PAYABLE

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Profit before taxation		67,958,484
<u>Add:</u> Entertainment	143,612	
Donations	<u>126,863</u>	
		270,475
<u>Less:</u> Items taxed at source		
Interest on Bank deposits at domestic Banks	6,897,366	
Interest income on NBE bills	6,593,383	
Interest on Bank deposits at foreign Banks	8,802	
Dividend from equity investment	<u>507,195</u>	
		<u>(14,006,746)</u>
Taxable profit		<u>54,222,213</u>
30% of Birr 54,984,156		16,266,664
Tax on foreign Bank deposits Birr 8,802.43@5%		<u>440</u>
Provision for taxation		16,267,104
<u>Less:</u> Withholding tax		<u>30,853</u>
		<u>16,236,251</u>

## 28. PAID UP SHARE CAPITAL

	<u>No of Shares</u>	<u>Birr</u>	<u>2015</u> <u>Birr</u>
<b><u>Issued and fully paid:</u></b>			
Shares value at June 30, 2015	197,975	197,975,235	177,271,425
Additions during the year	<u>64,025</u>	<u>64,024,888</u>	<u>20,703,810</u>
	<u>262,000</u>	<u>262,000,123</u>	<u>197,975,235</u>
<b><u>Earnings per share</u></b>			
Profit After Taxation		51,691,380	12,448,170
Weighted average number of shares		231,973	187,623
<b>EARNINGS PER SHARE (EPS)</b>		<u>222.83</u>	<u>91.66</u>

## 29. LEGAL RESERVE

In accordance with the Licensing & Supervision of Banking Business Directive No SBB/4/95 of the National Bank of Ethiopia, the Bank is required to maintain a legal reserve to which 25% of the net profits is transferred each year until such fund is equal to the paid up capital. When the legal reserve account equals the paid up capital of the Bank, the amount to be transferred to the legal reserve account will be 10% percent of the annual net profit. In the current year, the Bank has made the transfer as shown below:



	<b><u>Birr</u></b>
Balance brought forward	8,913,503
Transfer from current year profit	<u>12,922,845</u>
	<u>21,836,348</u>

### 30. RECONCILIATION OF OPERATING PROFIT OPERATING CASH FLOW

#### a) Adjustment for non-cash items in profit before tax

	<b><u>Birr</u></b>	<b><u>2015</u></b> <b><u>Birr</u></b>
Depreciation	7,645,045	7,546,092
Provision for loans and advances	4,038,072	238,733
Amortization	4,412,021	649,288
Provision for doubtful debts	1,998,792	-
Adjustment to fixed assets	56,136	18,015
Gain on sale of fixed assets	-	(96,700)
Dividend collected from equity investment	(507,195)	-
	<u>17,642,871</u>	<u>8,355,428</u>

#### b) Change in operating assets

	<b><u>Birr</u></b>	<b><u>2015</u></b> <b><u>Birr</u></b>
Loans and advances to customers	(260,409,862)	(68,505,604)
Trade and other receivables	(13,510,166)	102,410,217
Other assets	(58,365)	3,113,637
	<u>(273,978,393)</u>	<u>37,018,250</u>

#### c) Change in operating liabilities

	<b><u>Birr</u></b>	<b><u>2015</u></b> <b><u>Birr</u></b>
Customers deposits	52,416,770	319,112,853
Margins held on letters of credit	(10,979,006)	20,721,938
Other liabilities	(7,152,774)	(113,896,638)
	<u>34,284,990</u>	<u>225,938,153</u>





#### d) Change in cash and cash equivalent

	<u>30/06/2016</u>	<u>30/06/2015</u>	<u>Change</u>	<u>2015</u>
	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
Cash in hand	140,194,317	128,093,083	12,101,234	32,024,003
Deposit with local Banks	942,975	112,222,291	(111,279,316)	64,919,761
Deposit with foreign Banks	11,442,352	41,544,402	(30,102,050)	(30,427,734)
Reserve account with NBE	44,000,000	42,000,000	2,000,000	20,000,000
Other account with NBE	53,180,044	183,393,181	(130,213,137)	126,637,983
National Bank of Ethiopia- bills	<u>288,225,330</u>	<u>155,461,000</u>	<u>132,764,330</u>	<u>60,612,000</u>
	<u>537,985,018</u>	<u>662,713,957</u>	<u>(124,728,939)</u>	<u>273,766,013</u>

### 31. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors has overall responsibility for the establishment & oversight of the Bank's risks management framework. The Board is responsible for developing & monitoring Bank risk management policy.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Bank has established a comprehensive risk management system in line with internationally accepted risk management principles and best practices with the necessary adoption to suit its core business activity. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions, products and services offered.

The Bank has exposure to the following risks from its use of financial instruments: **Credit risk**; **Liquidity risk**; and **Market risks**. This note presents information about the Bank's exposure to each of the these risks, the Bank's objectives, policies and processes for measuring and managing risk.

#### a. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other Banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

The Bank has a subcommittee of Board of Directors namely 'Risk Management and Loan Review Committee' responsible for reviewing credit risk management policies and Bank's compliance with Regulatory Directives. Credit Management Department is responsible for implementing the credit risk management policies of the Bank. Credit Management Department and Branch units are required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Board. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.



### Maximum exposure to credit risk before collateral held or other credit enhancements

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. The table below represents the maximum credit risk exposure on monetary financial assets to the Bank:

	<u>Birr</u>	<u>2015</u> <u>Birr</u>
Loans and advances to customers	591,284,491	334,912,701
National Bank of Ethiopia - Bills	288,225,330	155,461,000
Trade and other receivables	102,254,707	90,743,333
National Bank of Ethiopia-Other accounts	53,180,044	183,393,181
Reserve with National Bank of Ethiopia	44,000,000	42,000,000
Deposit with other Banks	<u>12,385,327</u>	<u>153,766,693</u>
	<u>1,091,329,899</u>	<u>960,276,908</u>

The Bank does not perceive any significant credit risk on the following financial assets:

- ✓ The credit risk on the deposits and balances due from Banking institutions is considered to be low because the counter parties are Banks with no history of default;
- ✓ Investments in Government securities and balances with National Bank of Ethiopia are deemed to be adequately secured by the Government of the Federal Democratic Republic of Ethiopia that has no history of default.
- ✓ Maximum exposure to credit on loans and advances to customers is as follows:

	<u>Note</u>	<u>Birr</u>
Neither past due nor impaired (Pass Loan)	(i)	576,238,127
Past due but not impaired (Special Mention)	(ii)	17,466,800
Impaired (NPL)	(iii)	<u>5,608,868</u>
		599,313,795
Loan loss provision		<u>(8,029,304)</u>
		<u>591,284,491</u>

#### i) Loans and advances that are neither past due nor impaired

The Bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment.

#### ii) Loans and advances that are past due but not impaired

These are loans and advances where contractual interest or principal payments are past due by less than 90 days but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

#### iii) Impaired loans and advances

Impaired loans and advances are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.



The notes to the accounts from an integral part of the financial statements

## Provision for loan losses

- ✓ **Loans and advances that are neither past due nor impaired** - These exposures are categorized as pass accounts in line with National Bank of Ethiopia (NBE) directives and a provision at 1 % is made through profit or loss;
- ✓ **Loans and advances that are past due but not impaired** - These loans are categorized as special mention accounts in line with National Bank of Ethiopia (NBE) directives and a collective impairment allowance of 3% made to cover losses which have been incurred but have not yet been identified.
- ✓ **Impaired loans and advances** - These loans are categorized as substandard, doubtful and loss accounts in line with National Bank of Ethiopia (NBE) directives and a collective impairment allowance of 20%, 50% and 100% respectively made to cover losses which have been incurred but not yet been identified. According to the National Bank of Ethiopia directives, loans and advances overdue by above 90 days are considered non-performing.

## Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over deposits and balances due from Banks, and against government securities.

## Concentrations of credit risk

Credit concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Excessive concentration arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Currently the Bank monitors concentrations of credit risk on advance to customers by sector which shows the following position as at the balance sheet date:

			<u>2015</u>	
	<u>Birr</u>	<u>%</u>	<u>Birr</u>	<u>%</u>
Domestic trade and services	254,002,555	42.39	162,163,096	47.85
Construction	100,640,427	16.79	63,190,701	18.65
Merchandise	69,838,965	11.65	35,558,656	10.49
Transport	18,320,195	3.06	20,455,876	6.04
Overdraft	73,030,595	12.19	19,970,701	5.89
Export	48,566,887	8.10	19,701,902	5.81
Manufacturing	6,260,062	1.04	8,240,311	2.43
Import	21,542,700	3.59	5,188,710	1.53
Personal	5,343,336	0.89	3,473,757	1.02
Agriculture	323,501	0.05	515,093	0.15
Advance against import bills	1,444,572	0.25	444,946	0.13
	<u>599,313,795</u>	<u>100.00</u>	<u>338,903,749</u>	<u>100.00</u>

The notes to the accounts from an integral part of the financial statements

## b. Liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Compliance with the regulatory framework is monitored consistently. The Licensing & Supervision of Banking Business Directive No SBB/44/08 of the National Bank of Ethiopia provides that any licensed Bank should maintain liquid assets of not less than 25% of its total current liabilities, which is the sum of demand deposits, saving deposits and time deposits and similar liabilities with less than one-month maturity period. Weekly liquidity position showing end of week balance is required by the National Bank.

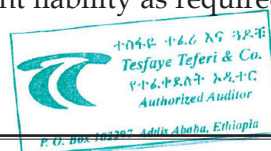
An asset and liability management committee is responsible for managing funding mismatches and attaining the desired level of liquidity in the manner described in the risk management policy.

### Contractual maturities of assets and liabilities

The maturity profile of assets and liabilities based on the remaining periods at 30 June 2016 was as follows:

	<u>Up to 3</u> <u>months</u> <u>Birr</u>	<u>3 - 12</u> <u>months</u> <u>Birr</u>	<u>Over 1</u> <u>years</u> <u>Birr</u>	<u>Total</u> <u>Birr</u>
<b>FINANCIAL ASSETS</b>				
Cash and Bank balances	152,579,644	-	-	152,579,644
National Bank of Ethiopia-Other accounts	53,180,044	-	-	53,180,044
National Bank of Ethiopia-Bills	-	-	288,225,330	288,225,330
Loans and advances	58,980,787	121,483,771	410,819,933	591,284,491
Other assets	52,690,254	27,922,053	21,642,400	102,254,707
Investments in equity shares	-	-	16,627,196	16,627,196
	<u>317,430,729</u>	<u>149,405,824</u>	<u>737,314,859</u>	<u>1,204,151,412</u>
<b>FINANCIAL LIABILITIES</b>				
Customer deposits	365,414,258	230,374,098	275,971,772	871,760,128
Other liabilities	19,548,483	10,860,268	13,032,322	43,441,073
Margins held	-	38,377,384	-	38,377,384
	<u>384,962,741</u>	<u>279,611,750</u>	<u>289,004,094</u>	<u>953,578,585</u>
Net excess liquidity/ (liquidity gap)	<u>(67,532,012)</u>	<u>(130,205,926)</u>	<u>448,310,765</u>	<u>250,572,827</u>
25 % of total financial liability	<u>96,240,685</u>	<u>69,902,937</u>	<u>72,251,023</u>	<u>238,384,646</u>
<b>Liquid asset</b>				
Cash and bank balance	140,194,317			
Deposit with other banks	12,385,327			
NBE-Issue account (Note 14)	35,410,600			
Total liquid asset	<u>187,990,244</u>			

The Bank's liquid assets are more than 25% of the total current liability as required by the National Bank of Ethiopia's directives.



The notes to the accounts from an integral part of the financial statements

## c. Market risk

Market risk is the risk that changes in the market prices, such as **interest rate, equity prices, and foreign exchange rates** will affect the future cash flows of the Bank's financial instruments. The objectives of market risk management are to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

### i. Interest rate risk

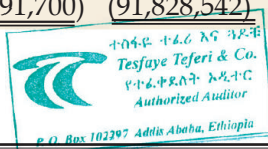
Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Bank's interest margin or the value of its net worth. The Bank often revises its lending rate across segments of the credit portfolio based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

The asset 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.

### *Interest rate risk sensitivity analysis*

The following table shows interest rate sensitivity position of the Bank based on the earlier of maturity or re-pricing dates.

	<u>Non- interest bearing</u> <u>Birr</u>	<u>Up to 3 months</u> <u>Birr</u>	<u>3 - 12 months</u> <u>Birr</u>	<u>Over 1 years</u> <u>Birr</u>	<u>Total</u> <u>Birr</u>
<b>FINANCIAL ASSETS</b>					
Cash and Bank balances	152,579,644	-	-	-	152,579,644
National Bank of Ethiopia-Other A/Cs	53,180,044	-	-	-	53,180,044
National Bank of Ethiopia-Bills	-	-	-	288,225,330	288,225,330
Loans and advances	-	58,980,787	121,483,771	410,819,933	591,284,491
Other assets	-	52,690,254	27,922,053	21,642,400	102,254,707
	<u>205,759,688</u>	<u>111,671,041</u>	<u>149,405,824</u>	<u>720,687,663</u>	<u>1,187,524,216</u>
<b>FINANCIAL LIABILITIES</b>					
Customer deposits	-	365,414,258	230,374,098	275,971,772	871,760,128
Other liabilities	-	19,548,483	10,860,268	13,032,322	43,441,073
Margins held	<u>38,377,384</u>	-	-	-	<u>38,377,384</u>
	<u>38,377,384</u>	<u>384,962,741</u>	<u>241,234,366</u>	<u>289,004,094</u>	<u>953,578,585</u>
<b>Interest rate sensitivity gap</b>	<u>167,382,304</u>	<u>(273,291,700)</u>	<u>(91,828,542)</u>	<u>431,683,569</u>	<u>233,945,631</u>



The notes to the accounts from an integral part of the financial statements

## ii. Foreign currency exposure

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange risks are controlled by maintaining balances in major currencies whose exchange rates against the reporting currency are expected to appreciate. The National Bank controls exchange rates due to which the rates are not fluctuating significantly.

The table below summarizes the foreign currency exposure position as at June 30, 2016.

	<u>Birr</u>	<u>USD</u>	<u>GBP</u>	<u>Euro</u>	<u>Total</u>
<b>Financial Assets</b>					
Cash and Bank balances	139,904,531	11,567,105	8,134	1,099,874	152,579,644
National Bank of Ethiopia-Other accounts	<u>53,180,044</u>	-	-	-	<u>53,180,044</u>
	<u>193,084,575</u>	<u>11,567,105</u>	<u>8,134</u>	<u>1,099,874</u>	<u>205,759,688</u>
<b>Financial liabilities</b>					
Customer deposits	871,760,128	-	-	-	871,760,128
Margins held	<u>2,492,965</u>	<u>31,548,356</u>	-	<u>4,336,063</u>	<u>38,377,384</u>
	<u>874,253,093</u>	<u>31,548,356</u>	-	<u>4,336,063</u>	<u>910,137,512</u>
Net foreign currency exposure	<u>(681,168,518)</u>	<u>(19,981,251)</u>	<u>8,134</u>	<u>(3,236,189)</u>	<u>(704,377,824)</u>
<b>Sensitivity analysis <math>\pm</math> 20%</b>					
<b>On profit before tax</b>		<b>-3,996,250</b>	<b>1,627</b>	<b>-647,238</b>	<b>-4,641,861</b>
<b>On equity (70%)</b>		<b>-2,797,375</b>	<b>1,139</b>	<b>-453,066</b>	<b>-3,249,302</b>

## 32. CAPITAL MANAGEMENT

The Bank's objectives when managing capital are:

- ✓ To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders;
- ✓ To maintain a strong capital base to support the current and future development needs of the business; and
- ✓ To comply with the capital requirements set by the National Bank of Ethiopia (NBE).

The Licensing & Supervision of Banking Business **Directive No SBB/50/2011** of the National Bank of Ethiopia provides that existing Banks (established before September 2011) should raise paid-up capital to Birr 500 million by June 30, 2016. The current paid up capital as shown in the statement of financial position is 52.40% of the required minimum.



The notes to the accounts from an integral part of the financial statements

### 33. CAPITAL ADEQUACY RATIO

According to the Licensing & Supervision of Banking Business **Directive No SBB/50/2011** of the National Bank of Ethiopia, the Bank has to maintain capital to risk weighted assets ratio of 8% at all times, the risk weighted assets being calculated as per the provisions of Directive No SBB/9/95 issued on August 18, 1995.

As at the balance sheet date, the Banks risk weighted assets total Birr 1,357,268,358, eight percent of which is Birr 108,581,469. Both the primary capital (Birr 262,000,123) and the total capital (Birr 322,678,503) are higher than the minimum required capital.

### 34. RELATED PARTY TRANSACTIONS

The Licensing & Supervision of Banking Business Directive No SBB/53/2012 of the National Bank of Ethiopia defined a related party as a shareholder, a director, a chief executive officer, or a senior officer of a commercial Bank and/or their spouse or relation in the first degree of consanguinity or affinity; and a partnership, a common enterprise, a private limited company, a share company, a joint venture, a corporation, or any other business in which officers of the Bank and/or their spouse or relation in the first degree of consanguinity or affinity of the officers of the Bank has business interest as shareholder, director, chief executive officer, senior officer, owner or partner . The directive stipulates that the identification of related parties shall be the responsibility of the Bank.

- a) The balance with related parties complies with the limitations on loans and advances stipulated in the directive. The aggregate sum of loans or advances extended to one related party at any one time should not exceed 15% of the total capital of the Bank. The breakdown of the outstanding loan balance to related parties is as follows:

	<u>Total Approved loan</u>	<u>Outstand- ing loan</u>	<u>Interest rate</u>	<u>Loan as % of capital</u>	<u>Collateral</u>	<u>Status of loan</u>
	<u>Birr</u>	<u>Birr</u>	<u>Per annum</u>			
<b>Aleta Land Coffee PLC</b>	15,000,000	14,604,852	14.3%	5.73%	Factory & machineries	Pass
<b>Pyramid Construction PLC</b>	15,000,000	2,571,085	16.5%	5.73%		
	12,000,000	11,975,694	15.5%	4.58%	Building	Pass
	<u>4,650,000</u>	<u>4,842,479</u>	15%	<u>1.77%</u>		
	<u>31,650,000</u>	<u>19,389,258</u>		<u>12.08%</u>		



The notes to the accounts from an integral part of the financial statements

- b) According to Licensing & Supervision of Banking Business Directive No SBB/49/2011 of the National Bank of Ethiopia, annual board compensation shall not exceed Birr 50,000 and monthly allowance shall not exceed Birr 2,000. This directive is replaced by Directive No SBB/63/2016 according to which the annual compensation is increased to Birr 100,000 and monthly allowance is increased to a maximum of Birr 4,000 effective June 1, 2016.

Annual Board remuneration is determined and approved at the Annual General meeting of the shareholders of the Bank. The Bank records the remuneration only in the year in which it is decided and approved for payment by the General Meeting, rather than accruing it every year. During the year the Bank paid remuneration of Birr 50,000 to each director on account of year 2015; and a monthly allowance of Birr 2,000 to each director throughout the year. The total amount paid is as follows:

<i>Key management personnel compensations</i>	<b>Birr</b>
Directors' remuneration:	
Monthly Allowances	241,863
Board of directors remuneration	459,863
	<u>701,726</u>

### 35. EMPLOYEE PENSION BENEFIT

As per Proclamation No. 715/2011, Private Organization Employees Pension Proclamation, the Bank is required to contribute a percentage of each individual staff salary to the Private Organizations Employees Pension Scheme every month. Each employee is also required to contribute a percentage of the salary to the same scheme. In the year of reporting the Bank's and the employees' contributions were 11% and 7% of staff monthly salaries, respectively. For the year ended 30 June 2016 the Bank contributed Birr 2,952,867 (30 June 2015 - Birr 2,431,482) which has been charged to the profit or loss.

### 36. PROPOSED DIVIDEND

Dividend is not proposed in the current year. The Bank records the dividend only in the year in which it is decided and approved for payment by the Annual General Meeting, rather than accruing it every year

### 37. OFF STATEMENT OF FINANCIAL POSITION ITEMS: CONTINGENCIES

In the ordinary course of business, the Bank conducts business involving guarantees and acceptances, and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

The notes to the accounts from an integral part of the financial statements





## Birr

Letters of guarantee & performance bonds	1,202,771,405
Letters of credit	<u>63,593,411</u>
	<u>1,266,364,816</u>

The table above discloses the nominal principal amounts of guarantees and other contingent liabilities. Nominal principal amounts represent the amounts at risk, should contracts be fully drawn upon and clients default.

Letters of guarantee are issued by the Bank, on behalf of customers, to guarantee payment or performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers. The Bank holds collateral, letters of undertaking or other security in respect of the guarantee issued.

Letters of credit commit the Bank to make payments to third parties, on production of documents, and the amounts are subsequently reimbursed by customers.

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. As a significant portion of guarantees is expected to expire without being drawn upon, the total of these nominal principal amounts is not representative of future liquidity requirements.

## 38. LEGAL PROCEEDINGS AND REGULATORY MATTERS

As per the lawyer's letter Ref. No GDB/LS/0015/16 dated September 17, 2016 the Bank has three pending civil suits instituted by the Bank. These are:-

S.N	Name of plaintiff	Name of defendant	Name of the Court	Amount (involved) Birr	Cause of the case	Probable outcome
1	Debub Global Bank S.C.	Ato Habtom Rezene & Fisiha Belay	Federal High Court	2,218,542	Loan	Favourable to the Bank
2	Debub Global Bank S.C.	Ato Mekonen G/Wold & Ato Dereje Haile	Federal First Instance Court	161,785	Claim	Favourable to the Bank
				<u>2,380,327</u>		

## 39. EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events after the balance sheet date which require disclosure in or amendment to the financial statements.



The notes to the accounts from an integral part of the financial statements

## Addresses of City Branches

No.	Branch Name	Telephone	Fax. No.	P.O.Box
1	Atlas	+251 116 672 587/04	+251 116 672 604	100743
2	Bethel	+251 113 696 756/55		
3	Beklo bet	+251 114 674 068 +251 114 704 426	+251 114 674 068	100743
4	Dir-Tere	+251 112 734 232	+251 112 734 232	183692
5	Dubay Tera	+251 118 690 215 +251 112 732 139/65	+251 112 732 164	
6	Gerji	+251 116 394 631/96		
7	Goffa	+251 114 704 870/71		
8	Jemo	+251 114 713 934 +251 114 713 588	+251 11 8 352 908	
9	Kality	+251 114 716 009 +251 118 698 621	+251 114 716 065	100743
10	Kality Gebriel	+251 114 717 753/18		
11	Messalemia	+251 112 788 439	+251 112 758 661	100743
12	Saris	+251 114 431 405 +251 114 431 420	+251 114 431 383	2315/1000
13.	Shiromeda	+251 111 540 066/95	+251 111 540 085	20414/1000
14.	Stadium	+251 115 129 873/31	+251 115 581 723	100743
15.	Summit	+251 118 682 787		
16.	Yerer	+251 116 675 782	+251 116 675 813	

## Addresses of Outlying Branches

No	Branch Name	Telephone	Fax. No.	P.O.Box
1.	Adama	+251 221 118 471/72	+251 221 118 473	3321
2.	Aleta-wondo	+251 462 241 179 +251 468 248 644	+251 462 240 558	35
3.	Arbaminch	+251 461 814 020	+251 461 812 424	2009
4.	Chuko	+251 462 270 169/03/24	+251 462 270 409	23
5.	Dilla	+251 463 310 012/19	+251 463 310 154	223
6.	Doyogena	+251 462 440 339 +251 462 440 340	+251 462 440 331	06
7.	Durame	+251 465 540 235		
		+251 465 540 334	+251 465 540 110	214
8.	Hawassa	+251 462 204 673		906
		+251 462 210 597		
	Hawassa Mini	+251 462 212 522	+251 462 213 014	
9.	Hosanna	+251 465 550 800		513
	Hosanna Mini	+251 465 550 583/708		
10.	Mekelle	+251 342 415 387	+251 342 415 193	1950
11.	Shashemene	+251 462 110 075/77	+251 462 110 072	910
12.	Woliyta	+251 465 514 153	+251 465 514 154	213
13.	Wolkite	+251 113 300 225/24	+251 113 300 228	145
14.	Worabe	+251 467 710 117/17	+251 467 700 105	36
15.	Yirgacheffe	+251 463 320 579	+251 463 320 570	112
16.	Yirgalem	+251 462 252 039	+251 462 252 129	18



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DEBUB GLOBAL BANK S.C.

