



Financial Result 2003-2004

Auditors Report

We have audited the accompanying balance sheet of Dashen Bank Share Company at 30 June 2004, the related profit and loss account and the statement of cash flows for the year then ended. These financial statements which have been prepared under the historical cost convention are the responsibility of the Directors of the bank. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, irregularity or error. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet at 30 June 2004, the related profit and loss account and the statement of cash flows for the year then ended read in conjunction with the notes forming part thereof, exhibit a true and fair statement of the affairs of Dashen Banks S.C., the results of its operations and its cash flows in conformity with generally accepted accounting principles consistently applied.

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

Balance Sheet

As At 30 June 2004	Notes	2003
Assets		
Cash and balances with other banks		
Cash on hand	77,215,256	102,797,325
Deposits with local commercial banks	80,540,449	34,175,425
Deposits with foreign banks	190,113,126	245,141,844
Reserve account with National Bank of Ethiopia	<u>224,472,042</u>	<u>138,292,965</u>
	572,340,873	520,407,559

Treasury Bills		299,039,000	129,445,600
Investments	3	25,551,795	22,801,795
Items in course of collection from other banks	4	80,177,858	46,130,214
Loans and advances to customers	5	1,627,369,234	1,217,873,555
other assets	6	32,868,517	28,898,556
Fixed assets	7	<u>39,296,772</u>	<u>25,914,557</u>
Total Assets		<u>2,676,644,049</u>	<u>1,991,471,836</u>
LIABILITIES			
Customers' deposits			
Demand deposits		623,230,151	466,326,634
Saving deposits		1,447,755,549	1,056,330,662
Fixed deposits		<u>106,748,362</u>	<u>98,727,688</u>
		2,177,734,062	1,621,384,984
Margin held on letters of credit		100,681,544	94,101,523
Other liabilities	8	165,789,128	116,766,380
provision for proposed dividends	14	38,000,000	20,000,000
provision for taxation	12	<u>22,289,956</u>	<u>10,331,984</u>
TOTAL LIABILITIES		<u>2,504,494,690</u>	<u>1,862,584,871</u>
SHAREHOLDERS' FUNDS			
Share capital	9	100,000,000	75,000,000
Legal reserve		38,787,340	24,721,741
Retained earnings	14	<u>33,362,019</u>	<u>29,165,224</u>
		<u>172,149,359</u>	<u>128,886,965</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>2,676,644,049</u>	<u>1,991,471,836</u>

Income Statement

Income	Notes	2003
Interest Income		
Loans and advances	113,061,340	79,526,979
Surplus fund	3,576,212	<u>2,483,265</u>
Total interest income	116,637,552	82,010,244

Interest expense

Interest paid on deposits		<u>(40,763,454)</u>	<u>(30,057,945)</u>
		75,874,098	51,952,299
Less: provision for doubtful loans and advances		<u>(15,738,231)</u>	<u>(23,111,000)</u>
		60,135,867	60,135,867
Other income			
Service income		11,284,629	8,753,826
Letters of credit opening charges		6,888,014	4,699,494
commissions		17,869,865	11,386,429
Gains on foreign exchange		32,557,563	21,907,050
Sundry income	10	5,569,224	4,763,800
Investment income from Tana Building		<u>1,216,485</u>	<u>295,312</u>
		75,385,780	<u>51,805,911</u>
EXPENSES			
Salaries and benefits		23,020,100	18,662,328
Rent		8,195,599	6,748,203
General and administrative	11	18,272,877	11,823,090
Depreciation		6,912,815	6,130,966
Directors' remuneration		457,904	302,222
Audit fee and expenses		<u>110,000</u>	<u>121,898</u>
		<u>(56,969,295)</u>	<u>(43,788,707)</u>
PROFIT BEFORE PROVISION FOR TAXATION		78,552,352	36,858,503
Provision for taxation	13	<u>(22,289,956)</u>	<u>(10,331,984)</u>
NET PROFIT AFTER PROVISION FOR TAXATION		56,262,396	26,526,519
Transfer to legal reserve (25%)		(14,065,599)	(6,631,630)
Transfer to retained earnings		<u>(42,196,797)</u>	<u>(19,894,889)</u>
Earnings per share		<u>608</u>	<u>354</u>

Cash Flow Statement

For The Year Ended 30 June 2004	Notes	2003	
Cash flows from operating activities			
Operating profit before provision for taxation		78,552,352	36,858,503
Adjustments for:			
Depreciation		6,912,815	6,130,966
Interest income received on surplus funds		(3,576,212)	(1,353,328)
Income from Tana building investment		(1,216,485)	(295,312)
		80,672,470	41,340,829

(Increase) in items in course of collection	(34,047,644)	16,154,461
(Increase) in other assets	(3,969,961)	(12,044,002)
(Increase) in loans and advances to customers	(409,495,679)	(372,849,100)
Increase in demand deposits	156,903,517	72,991,483
Increase in saving deposits	391,424,887	319,061,221
Increase in fixed deposits	8,020,674	38,169,891
increase in margin held on letters of credit	6,580,021	33,976,948
increase in other liabilities	<u>49,022,748</u>	<u>33,765,542</u>
	245,111,033	170,567,273
Income taxes paid	<u>(10,331,984)</u>	<u>(14,699,117)</u>
Net cash inflow from operating activities	<u>234,779,049</u>	<u>155,868,156</u>
Cash flows from investing activities		
Purchase of fixed assets	(20,295,030)	(9,632,276)
Investment	(2,750,000)	(1,454,397)
Disposal proceeds of treasury bills	(169,593,400)	(508,600)
Disposal proceeds of government bonds		10,000,000
Interest income received on surplus funds	3,576,212	1,353,328
Income from Tana building investment	<u>1,216,485</u>	<u>295,312</u>
Net cash (used in) received from investing activities	<u>(187,845,733)</u>	<u>1,070,567</u>
Cash flows from financing activities		
proceeds from issuance of share capital	25,000,000	
Dividends paid	(20,000,000)	(15,000,000)
Net cash received from (used in) financing activities	<u>(5,000,000)</u>	<u>(15,000,000)</u>
Net increase in cash and cash equivalents	51,933,316	141,938,723
Cash and cash equivalents, 1 July 2003	<u>520,407,559</u>	<u>378,468,836</u>
Cash and cash equivalents, 30 June 2004	<u>572,340,875</u>	<u>520,407,559</u>

Notes to the Financial Statements

ESTABLISHMENT

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

(d) Conversion of foreign currencies

(i) Foreign currencies denominated transactions are converted into Birr at the prevailing rates of exchange and realized foreign exchange gains or losses are reflected in the profit and loss account.

(ii) Year-end balances of foreign currencies on hand and with correspondent banks are converted into Birr at the mean of the buying and selling rates ruling at the balance sheet date.

(e) Provision for doubtful debts

The provision is maintained at a level adequate to cover possible losses. Management determines the adequacy of the provision based upon reviews of individual credits and other related factors, and pursuant to the Directives of the National Bank of Ethiopia.

(f) Fixed assets

Fixed assets are stated at cost, net of depreciation calculated on the following basis at their respective rates per annum.

(i) Building is depreciated based on the straight-line method at a rate of 5% per annum.

(ii) The following categories of business assets are depreciated based on the declining balance method:

Furniture and fixtures	20%
Office and other equipment	20%
Motor vehicles	20%
Computer hardware and software	25%

The depreciation base is the book value as recorded in the opening balance sheet of the tax period including assets acquired during the tax period and excluding sales price of assets.

INVESTMENTS

(i) The Bank and Midroc Ethiopia PLC following their agreements on 5 October 2001 acquired jointly the Tana Department Store Building in Addis Ababa, as a result of a tender procedure instituted by the commercial Bank of Ethiopia.

According to the terms of the agreement between the two joint venture parties:

a) The contributions for the acquisition are:

			2003
Midroc Ethiopia PLC	60%	34,202,693	34,202,693
Investment in Nyala Insurance S.Co.(ii)	40%	22,801,795	22,801,795
		<u>57,004,488</u>	<u>57,004,488</u>

b) Dashen Bank S.C is appointed to manage and administer the affairs of the building.

c) The results of operations are to be shared pro-rata to the respective contributions.

(ii) The bank owns 2,750 shares at par value of Birr 1,000 each in Nyala Insurance Share company.

ITEMS IN COURSE OF COLLECTION FROM OTHER BANKS

Un-cleared local cheques	62,904,136	38,012,179
Outward bills purchased	3,772,140	1,365,841
Outward documentary bills purchased	13,417,499	5,866,856
MT/TT received-foreign xxxxx	5,823	1,727
Foreign demand draft paid	<u>84,083</u>	<u>885,338</u>
	<u>80,177,858</u>	<u>46,130,214</u>

LOANS AND ADVANCES TO CUSTOMERS

Agriculture	67,539,945	35,481,866
Manufacturing	383,892,154	339,141,799
Domestic trade and services	419,726,408	357,286,526
Export	82,774,141	77,156,297
Import	238,224,373	153,538,372

Building and construction	149,431,967	86,302,866
Transport	188,304,889	77,158,529
Advances on letters of credits	62,096,481	59,666,332
Personal	1,104,844	793,994
Staff housing loans	2,230,412	
Loans in litigation	71,104,367	70,122,376
Loans under re-activation	24,803,841	10,042,427
Less: Provision for doubtful debts	(63,469,000)	(48,817,829)
&advances Suspended interest account	<u>(395,588)</u>	-
	<u>1,627,369,234</u>	<u>1,217,873,555</u>

5.1 The Bank is a party to various legal proceedings in relation to loans and advances, the ultimate resolution of which is not expected to have a materially adverse effect on the financial position of the bank or the results of its operations.

5.2 The Bank is able to report that under the guarantee issued by the Federal Government of Ethiopia it has recovered in the year to 30 June 2005 advances against import bills and accrued interest thereon in respect of goods stranded in Eritrean ports in 1998.

OTHER ASSETS

		2003
National Trading Enterprise Outstanding deposit for rent	2,363,522	2,363,522
Stocks of		
- Stationery and supplies	758,070	627,542
- Passbooks, drafts and CPOs	215,748	711,403
- Cheque books	238,126	201,567
- Advertising materials	39,565	42,551
- Fixed assets	1,667,404	1,216,408
- Cleaning and sanitation	10,432	
- Entertainment supplies	800	
- Uniforms	201	7,366
- Sundry materials	<u>12,288</u>	<u>8,985</u>
	2,942,634	2,815,822
Prepayments	7,991,934	7,179,825
Staff advances	7,856,427	2,384,956
Western Union	3,370,266	3,883,810
Suspense account (National Bank of Ethiopia)	683,387	683,387
Sundry debtors (see below 2)	<u>10,023,869</u>	<u>9,587,225</u>
	35,232,039	28,898,556
Less: provision for doubtful receivable (National Trading Enterprise)	<u>(2,363,522)</u>	
Sundry debtors	<u>32,868,517</u>	<u>28,898,556</u>
Credit cards	2,379,819	1,843,414
Cash notes holding (National Bank of Ethiopia)	19,730	1,344,446
Stolen money and related court fees	666,225	645,454

Tana Building current account	1,191,248	1,012,463
Interest on Government Bonds and Treasury bills	311,670	366,000
Advance paid for construction	1,000	122,459
Travelers cheques on hand	1,419,231	84,027
Duplicate payments and overdrawn accounts	44,042	24,013
Deposit for signboards and logo	14,000	14,000
2% with holding tax	25,237	16,160
Interest on fixed time deposit	702,740	
Payments by correspondent banks	3,004,485	
Miscellaneous	<u>244,442</u>	<u>4,114,789</u>
	<u>10,023,869</u>	<u>9,587,225</u>

FIXED ASSETS

Cost	30/06/03	Additions	Adjustments/ Disposals	30/06/04
Building		3,590,839		3,590,839
Furniture and fixtures	9,941,566	1,120,148		11,061,714
Office and other equipment	8,615,117	1,189,510		9,804,627
Computers and software	16,795,165	5,003,820		21,798,985
Motor vehicles	17,519,981	2,046,115	(835,347)	18,730,749
Acquired property	<u>3,672,035</u>	<u>7,344,598</u>		<u>11,016,633</u>
	<u>56,543,864</u>	<u>20,295,030</u>	<u>(835,347)</u>	<u>76,003,547</u>
Accumulated depreciation				
Furniture and fixtures	4,948,313	1,222,680		6,170,993
Office and other equipment	3,549,533	1,251,019		4,800,522
Computers and software	9,951,146	2,961,960		12,913,106
Motor vehicles	12,180,315	1,477,156	(835,347)	<u>12,822,124</u>
	30,629,307	6,912,815	(835,347)	36,706,775
Net Book values				2003
Building		3,590,839		
Furniture and fixtures		4,890,721		4,993,252
Office and other equipment		5,004,075		5,065,585
Computers and software		8,885,879		6,844,019
Motor vehicles		5,908,625		5,339,666
Acquired property		<u>11,016,633</u>		<u>3,672,035</u>
		<u>39,296,772</u>		<u>25,914,55</u>

OTHER LIABILITIES

Outstanding transfers	63,565,254	31,428,214
CPOs ad certified cheques issued	57,249,220	43,897,038
Exchange payable to National Bank of Ethiopia	8,245,503	8,243,138
MTs/TTs payable	12,127,883	16,696,327
Blocked current and saving accounts	2,770,593	2,060,216
Demand drafts payable	582,568	980,272
Accrued interest payable on fixed deposits	2,276,363	2,284,824
Accrued leave pay	1,652,175	1,458,074
Bonus payable	1,215,096	1,034,000
Accruals	3,402,081	1,803,512
Taxes	23,773	116,600
Stamp duty	961,823	739,851
Special reserve, Article 28 of proclamation 84/1994	4,427,463	2,557,551
Project cost of Tana Department Store building	2,484,821	1,553,269
Sundries (See below)	1,414,059	1,913,494
Other collections by correspondent banks	3,390,453	
	<u>165,789,128</u>	<u>116,766,380</u>

Sundries

Midroc Ethiopia		550,314
National Motors Corporation	126,500	301,500
Office rent payable	343,182	283,182
5% income tax on interest paid	193,816	135,705
Neon Addis	92,843	92,843
Outstanding dividends	192,000	86,400
Payable to correspondent banks	191,961	60,456
Income tax payable	230,944	14,485
Miscellaneous	<u>42,813</u>	<u>388,609</u>
	<u>1,414,059</u>	<u>1,913,494</u>

SHARE CAPITAL

		2005
Authorized capital 300,000 ordinary Shares of Birr 1,000 each	<u>300,000,000</u>	<u>300,000,000</u>
Paid-up capital 100,000 Ordinary shares of Birr 1,000 each	<u>100,000,000</u>	<u>75,000,000</u>

SUNDRY INCOME

Telecommunications	4,640,336	3,615,010
Postage	185,172	174,693
Estimation fees	256,385	199,286
Legal fees	<u>2,899</u>	<u>5,608</u>
Miscellaneous	484,432	<u>769,203</u>
	<u>5,569,224</u>	<u>4,763,800</u>

GENERAL AND ADMINISTRATIVE EXPENSES

Stationery and printing	1,894,118	1,527,737
Telecommunications	3,314,172	2,319,867
Postage	163,960	142,320
Advertisements	1,481,017	1,329,189
Correspondent and bank charges	964,370	732,556
Entertainment	124,789	104,130
Insurance	663,887	585,064
Fuel and lubricants	476,236	442,831
Perdiems	638,332	405,909
Representation allowance	547,229	534,240
Transport	517,155	322,877
Water and light	270,922	190,341
Special reserve, Article 28 of proclamation 84/19994	2,000,000	1,000,000
Provision for doubtful accounts	2,363,522	
Maintenance and repairs	1,022,565	810,604
Donations and contributions	62,615	157,115
Professional fees	428,750	217,117
SWIFT charges	372,290	200,622
Computer supplies	373,495	318,330
Sundries	593,453	482,241
	18,272,877	11,823,090

PROVISION FOR TAXATION

Profit before provision for taxation		78,552,352
Add: Representation allowance in excess of 10% of salary	155,036	
Donations and contributions	62,615	
Entertainment	124,789	
Tax on board fees	111,904	
Tax on farewell benefit	2,700	
	2,700	457,044
Less: Interest on treasury bills	2,370,570	
Interest on fixed time deposit	702,740	
Bad debts written off against Provision held before June 2002	1,217,148	
interest on foreign deposit	502,902	
		(4,793,360)
Taxable profit		<u>74,216,036</u>
Taxation 30%		22,264,811
Add: Tax on interest earned on foreign deposit (5% x 502,902)		25,145
		<u>22,289,956</u>

Profit tax is computed at the rate of 5% on interest earned on deposit with foreign banks as per Income Tax proclamation no 286/2002, Article 36 sub Article 1.

EARNINGS PER SHARE

Earnings per share for the year are calculated on the basis of the average number of shares outstanding

during the year.

RETAINED EARNINGS

		2003
Balance,1 July 2003	29,165,222	29,270,333
Add: Transfer from profit and loss Account	42,196,797	19,894,889
Less: proposed dividend	<u>(38,000,000)</u>	<u>(20,000,000)</u>
	<u>33,362,019</u>	<u>29,165,222</u>

MEMORANDUM ITEMS

a) Contingent liabilities Guarantees issued to customers **90,188,501** **60,945,952**

b) contingent assets

There was interest in memorandum accounts accumulated on loans and advances under litigation amounting to Birr 27,034,071,(2003, Birr 22,739,387)

c) Commitments

Letters of credit	285,846,522	268,231,303
Margin held on L/C	<u>(100,681,544)</u>	<u>(94,101,523)</u>
	185,164,978	174,129,780
Outward bills for collection	27,555,198	8,097,135
Inward bills for collection	16,870,484	<u>11,214,007</u>
	<u>229,590,660</u>	<u>193,440,922</u>

d) The un-utilized balances of overdraft facilities granted to customers at 30 June 2006 amounted to Birr 165,121,000 It was Birr 81,556,000 in 2003.

EMPLOYEE'S BENEFITS SCHEMES

Regarding the provident fund scheme, the Bank contributes 12% of basic salary while employees contribute 6%. These contributions are held for each individual in saving accounts of the Bank. All other employee benefits are in accordance with the labor proclamation No.377/2003. Eligible staff also benefit from Housing Loans.