



Financial Result 2005-2006

Auditors Report

We have audited the accompanying balance sheet of Dashen Bank Share Company at 30 June 2006, 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 2006, 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 2006	Notes	2005
Assets		
Cash and balances with other banks		
Cash on hand		109,768,024
Deposits with local commercial banks		75,207,630
Deposits with foreign banks		419,626,669
Deposit with National Bank of Ethiopia	3	<u>415,648,794</u>
		1,020,251,117
Investments	4	27,801,765
Items in course of collection from other banks	5	122,774,202
		153,864,230

Loans and advances to customers	6	3,080,263,248	2,160,632,436
other assets	7	75,097,334	42,557,741
Fixed assets		<u>60,012,535</u>	<u>45,791,652</u>
Total Assets		<u>4,546,012,978</u>	<u>3,419,808,716</u>
LIABILITIES			
Customers' deposits			
Demand deposits		1,039,091,412	793,030,926
Saving deposits		2,343,244,480	1,897,045,435
Fixed deposits		<u>309,267,163</u>	<u>142,930,754</u>
		3,691,603,055	2,833,007,115
Margin held on letters of credit		136,392,485	103,601,739
Other liabilities	9	280,367,023	213,869,232
provision for taxation	13	<u>51,777,613</u>	<u>26,447,616</u>
TOTAL LIABILITIES		<u>4,160,140,176</u>	<u>3,176,925,702</u>
SHAREHOLDERS' FUNDS			
Share capital	10	156,190,000	100,000,000
Legal reserve		89,973,776	56,576,329
General reserve		64,709,026	
Retained earnings	16	<u>75,000,000</u>	<u>86,306,685</u>
		<u>385,872,802</u>	<u>242,883,014</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>4,546,012,978</u>	<u>3,419,808,716</u>

Income Statement

Income	Notes	2005
Interest Income		
Loans and advances	227,942.449	155,139.327
Surplus fund	<u>13,950.849</u>	<u>6,746.819</u>
Total interest income		161,886,146
Interest expense		
Interest paid on deposits		<u>(66,887,818)</u>
		175,005,480
Less: provision for doubtful loans and advances		<u>(13,560,113)</u>
		<u>(11,758,000)</u>

		161,445,367	<u>97,597,831</u>
Other income			
Service income		24,221,209	13,822,754
Letters of credit opening charges	10,507,419		5,862,085
commissions	26,038,498		18,643,834
Gains on foreign exchange	54,376,042		25,750,656
Sundry income	11	8,252,709	7,542,653
Investment income from Tana Building		<u>1,334,477</u>	<u>1,031,074</u>
		124,730,354	<u>72,653,056</u>
EXPENSES			
Salaries and benefits		39,917,551	28,998,584
Rent		12,452,314	9,763,501
General and administrative	12	32,841,576	22,346,662
Depreciation		14,775,353	10,818,338
Directors' remuneration		698,769	600,308
Audit fee and expenses		<u>122,757</u>	<u>119,922</u>
		<u>(100,808,320)</u>	<u>(72,647,315)</u>
PROFIT BEFORE PROVISION FOR TAXATION		185,367,401	97,603,572
Provision for taxation	13	<u>(51,777,613)</u>	<u>(26,447,616)</u>
NET PROFIT AFTER PROVISION FOR TAXATION		133,589,788	71,155,956
Transfer to legal reserve (25%)		(33,397,447)	(17,788,989)
Transfer to retained earnings		<u>(100,192,341)</u>	<u>(53,366,967)</u>
Earnings per share	14	<u>956</u>	<u>712</u>

Cash Flow Statement

For The Year Ended 30 June 2006	Notes	2005
Cash flows from operating activities		
Operating profit before provision for taxation		185,367,401
Adjustments for:		97,603,572
Depreciation		14,775,353
Interest income received on surplus funds		10,818,339
Income from Tana building investment		(13,950,849)
prior year adjustment		(6,746,820)
		(1,031,074)
		<u>(62,303)</u>
		184,857,428
(Increase) in items in course of collection		100,581,714
(Increase) in other assets		(31,090,028)
(Increase) in loans and advances to customers		(32,539,820)
Increase in demand deposits		(9,688,997)
Increase in saving deposits		(919,630,812)
Increase in fixed deposits		(533,263,202)
		246,060,486
		169,800,775
		446,199,045
		449,289,886
		166,336,409
		36,182,392

increase in margin held on letters of credit	32,790,746	2,920,195
increase in other liabilities	<u>66,497,791</u>	<u>48,080,104</u>
	159,481,245	221,306,523
Income taxes paid	<u>(26,447,616)</u>	<u>(22,289,956)</u>
Net cash inflow from operating activities	<u>133,033,629</u>	<u>199,016,567</u>
Cash flows from investing activities		
Purchase of fixed assets	(29,972,560)	(22,900,829)
Disposal of fixed assets	976,324	5,487,611
Investment		(2,250,000)
Disposal proceeds of treasury bills		299,039,000
Returns from:		
Interest income received on surplus funds	13,950,849	6,746,820
Income from Tana building investment	<u>1,334,477</u>	<u>1,031,074</u>
Net cash (used in) received from investing activities	<u>(13,710,910)</u>	<u>287,253,676</u>
Cash flows from financing activities		
proceeds from issuance of share capital	56,190,000	
Dividends paid	(46,000,000)	(38,000,000)
Directors bonus	16	<u>(360,000)</u>
Net cash received from (used in) financing activities	<u>9,400,000</u>	<u>(38,360,000)</u>
Net increase in cash and cash equivalents	128,722,719	447,910,243
Cash and cash equivalents, opening balance	<u>1,020,251,117</u>	<u>572,340,875</u>
Cash and cash equivalents, closing balance	<u>1,148,973,836</u>	<u>1,020,251,118</u>

Notes to the Financial Statements

ESTABLISHMENT

The Bank is a privately owned company established in 1995 in accordance with the ‘Licensing and Supervision of Banking business proclamation No.84/1994’ of Ethiopia to undertake commercial banking activities.

The bank obtained its license from the National Bank of Ethiopia on 20 September 1995 and started normal business activities on the first of January 1996. it operates through its head office in Addis Ababa and thirty seven area banks established within and outside Addis Ababa and four forex bureaus.

ACCOUNTING POLICIES

(b) Interest income and expenses

Interest income and interest expenses are accounted for on the accrual basis. However, no interest is accounted for unpaid past due loans and advances.

(c) Other income

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.

DEPOSIT WITH NATIONAL BANK OF ETHIOPIA

		2005
Statutory reserve balance	183,078,993	138,378,993
Payment and settlement account	<u>298,970,273</u>	<u>277,269,801</u>
	<u>482,049,266</u>	<u>415,648,794</u>

INVESTMENTS

Investment in Tana Building (i)	22,801,795	22,801,795
Investment in Nyala Insurance S.Co.(ii)	5,000,000	5,000,000

27,801,795

27,801,795

(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:

			2005
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 5,000 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	127,249,026	101,598,073
Outward bills purchased	5,406,320	3,322,700
Outward documentary bills purchased	21,085,353	17,784,445
MT/TT received-foreign	5,823	1,727
Foreign demand draft paid	117,708	67,257
	<u>153,864,230</u>	<u>122,774,202</u>

LOANS AND ADVANCES TO CUSTOMERS

Agriculture	133,086,147	106,874,400
Manufacturing	676,584,057	521,587,701
Domestic trade and services	580,083,280	466,349,023
Export	211,898,183	147,290,224
Import	366,577,386	306,190,977
Building and construction	534,158,054	299,923,068
Transport	430,592,471	211,747,887
Advances on letters of credits	110,813,038	64,551,629
Personal	604,204	1,958,358
Loans in litigation	97,814,465	89,938,764
Loans under re-activation	7,767,994	9,914,506
Staff housing loans	20,033,870	6,501,861
Less: Provision for doubtful debts	(83,877,287)	(71,500,887)
&advances Suspended interest account	<u>(2,872,614)</u>	<u>(695,075)</u>
	<u>3,080,263,248</u>	<u>2,160,632,436</u>

which is not expected to have a materially adverse effect on the financial position of the bank or the results of its operations.

6.2 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 2006 advances against import bills and accrued interest thereon in respect of goods stranded in Eritrean ports in 1998.

OTHER ASSETS

		2005
National Trading Enterprise Outstanding deposit for rent	2,257,578	2,257,578
Stocks of		
- Stationery and supplies	2,026,993	1,005,004
- Passbooks, drafts and CPOs	190,563	1,009,018
- Cheque books	737,958	426,035
- Advertising materials	23,141	174,099
- Fixed assets	3,442,139	1,945,746
- Cleaning and sanitation	25,910	8,939
- Entertainment supplies	1,000	2,600
- Uniforms	6,522	10,978
- Sundry materials	7,022	10,931
	6,461,248	4,593,350
Prepayments	7,425,513	4,778,515
Staff advances	9,566,223	4,353,734
Western Union	6,223,698	5,892,508
Suspense account (National Bank of Ethiopia)	707,400	683,387
Other non-current assets (see below 1)	15,142,912	10,064,938
Sundry debtors (see below 2)	29,570,340	12,191,082
	77,354,912	44,815,092
Less: provision for doubtful receivable (National Trading Enterprise)	(2,257,578)	(2,257,578)
	<u>75,097,334</u>	<u>42,557,514</u>
Other non-current assets-above 1		
Construction in progress*	14,043,009	9,904,638
Cash collateral to VISA	899,923	
Deposit for Multimedia Broad-band	185,980	146,300
Deposit for signboards and logo	14,000	14,000
	<u>15,142,912</u>	<u>10,064,938</u>
Sundry debtors-above2		2005
Credit cards	19,149,741	4,765,154
Cash notes holding (National Bank of Ethiopia)	73,680	350,828
Stolen money and related court fees	703,430	703,430
Tana Building current account	1,303,017	2,209,328
Interest on fixed deposit		1,285,425
Travelers cheques on hand	911,990	1,347,748
Duplicate payments and overdrawn accounts	24,659	24,659
2% with holding tax	3,085	31,244
2% withholding tax (Tana)	78,651	
Advance paid for construction	1,628,189	
Payments by correspondent banks	761,574	333,958
Blocked balance for land lease of Head office	4,000,000	
Miscellaneous	932,324	1,166,308
	<u>29,570,340</u>	<u>12,191,082</u>

FIXED ASSETS

Cost	30/06/05	Additions	Adjustments/ Disposals	30/06/06
Premises	3,478,130			3,478,130
Furniture and fixtures	13,076,105	1,935,719		15,011,824
Office and other equipment	12,234,579	2,421,380		14,655,956
Computers and software	37,416,935	18,729,872		56,146,807
Motor vehicles	21,075,358	4,200,837		25,276,195
Acquired property	<u>6,035,658</u>	<u>2,684,752</u>	<u>(976,324)</u>	<u>7,744,086</u>
	<u>93,316,765</u>	<u>29,972,560</u>	<u>(976,324)</u>	<u>122,313,001</u>
Accumulated depreciation				
Premises	173,906	173,905		347,811
Furniture and fixtures	7,552,015	1,491,002		9,043,017
Office and other equipment	6,287,358	1,673,352		7,960,710
Computers and software	19,039,063	9,276,431		28,315,494
Motor vehicles	<u>14,472,771</u>	<u>2,160,663</u>	<u>-</u>	<u>16,633,434</u>
	<u>47,525,113</u>	<u>14,775,353</u>		<u>62,300,466</u>
Net Book values				
Premises	3,304,224			3,130,319
Furniture and fixtures	5,524,090			5,968,807
Office and other equipment	5,947,221			6,695,249
Computers and software	18,377,872			27,831,313
Motor vehicles	6,602,587			8,642,761
Acquired property	<u>6,035,658</u>			<u>7,744,086</u>
	<u>45,791,652</u>			<u>60,012,535</u>

OTHER LIABILITIES

		2005
Outstanding transfers	44,245,292	46,751,995
CPOs ad certified cheques issued	71,505,613	55,843,901
Exchange payable to National Bank of Ethiopia	16,553,118	10,250,678
MTs/TTs payable	18,713,571	14,519,379
Blocked current and saving accounts	14,959,314	4,276,124
Demand drafts payable	344,384	358,973
Accrued interest payable on fixed deposits	3,396,786	2,853,699
Accrued leave pay	3,267,448	2,278,795
Bonus payable	2,488,207	1,481,525
Accruals	10,450,065	6,674,821
Taxes	26,774	59,933
Unearned revenue	1,371,512	
Stamp duty	1,171,456	889,776
Merchant control account	1,555	
Special reserve, Article 28 of proclamation 84/1994	11,494,984	5,284,097
Tana Department store building	4,942,159	4,484,821
Other collections by correspondent banks		316,964
Special clearance	61,787,824	50,577,093
Sundries (See below)	<u>13,646,961</u>	<u>6,966,658</u>
	<u>280,367,023</u>	<u>213,869,232</u>
Sundries		
National Motors Corporation	126,500	126,500
Office rent payable	303,383	393,732
5% income tax on interest paid	304,689	221,044

Neon Addis	92,843	92,843
Outstanding dividends	498,000	291,000
Payable to correspondent banks	11,695,739	4,504,367
Income tax payable	304,145	236,695
Agent commission on credit cards	93,208	52,289
Payable to Midroc Ethiopia PLC	47,191	
Deposit for guarantees	178,450	1,043,650
Adjustment and refund account	2,435	4,538
Franco valuta payable to National Bank of Ethiopia	378	
	<u>13,646,961</u>	<u>6,966,658</u>

SHARE CAPITAL

		2005
Authorized capital 300,000 ordinary Shares of Birr 1,000 each	<u>300,000,000</u>	<u>3000,000,000</u>
Paid-up capital 156,190 Ordinary shares of Birr 1,000 each	<u>156,190,000</u>	<u>100,000,000</u>

The bank has collected Birr 13,810,000 after the balance sheet date out of the subscribed capital of Birr 50,000,000 approved at the 9th extraordinary shareholders' meeting on June 6,2006.

SUNDRY INCOME

Telecommunications	6,614,296	5,504,031
Postage	306,894	235,963
Estimation fees	299,393	269,248
Correspondent bank charges	3,500	
Legal fees	2,798	7,202
Miscellaneous	<u>1,025,828</u>	<u>1,526,209</u>
	<u>8,252,709</u>	<u>7,542,653</u>

GENERAL AND ADMINISTRATIVE EXPENSES

Stationery and printing	2,880,178	2,672,284
Telecommunications	8,068,751	7,000,092
Postage	276,685	217,560
Advertisements	4,015,652	1,684,529
Correspondent and bank charges	211,469	1,303,017
Entertainment	235,436	235,583
Insurance	871,120	741,676
Fuel and lubricants	778,549	679,896
Perdiems	641,699	463,849
Representation allowance	788,971	736,481
Transport	722,768	407,905
Water and light	513,560	425,246
Special reserve, Article 28 of proclamation 84/19994	6,244,068	1,000,000
Maintenance and repairs	2,614,142	1,228,551
Donations and contributions	15,300	60,000
Professional fees	1,109,306	309,256
SWIFT charges	682,633	350,462
Computer supplies	545,986	532,282
Sundries	<u>1,625,303</u>	<u>2,297,993</u>
	<u>32,841,576</u>	<u>22,346,662</u>

PROVISION FOR TAXATION

		2005
Profit before provision for taxation	185,367,401	97,603,572
Add: Representation allowance in excess of 10% of salary	136,376	268,327
Donations and contributions	300	
Entertainment	<u>235,436</u>	<u>235,583</u>
	372,112	<u>503,910</u>
	185,739,513	98,107,482
Less: Interest on treasury bills	15,000	685,430
Interest on local deposit	933,082	1,432,808
Interest on foreign deposit	12,121,645	4,004,257
Dividend earned on shares	881,121	624,324
Bad debts written off against Provision held before June 2002	1,216,894	<u>3,869,319</u>
	<u>(15,167,742)</u>	<u>(10,616,138)</u>
Taxable profit	<u>170,571,771</u>	<u>87,491,344</u>
Taxation		
(a) @30% (170,571,771)	51,171,531	26,247,403
(b) @ 5% (12,121,645)*	606,082	200,213
	<u>51,777,613</u>	<u>26,447,616</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 Article1.

EARNINGS PER SHARE

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

GENERAL RESERVE

Transfer from retained earnings	39,936,685
2005	<u>24,772,341</u>
2006	<u>64,709,026</u>

RETAINED EARNINGS

		2005
Balance, 1 July 2005	86,306,685	33,362,021
Add: Transfer from profit and loss Account	<u>100,192,341</u>	<u>53,366,967</u>
	186,499,026	86,728,988
Less: Prior year adjustment		<u>(62,303)</u>
Dividend paid (2005)	(46,000,000)	
Directors' bonus paid (2005)	(370,000)	(360,000)
Directors' Bonus (2006)	<u>(420,000)</u>	
	(790,000)	<u>(360,000)</u>
General Reserve (2005)	(39,936,685)	
General Reserve (2006)	<u>(24,772,341)</u>	
	<u>(64,709,026)</u>	
	<u>75,150,131</u>	<u>86,306,685</u>

MEMORANDUM ITEMS

a) Contingent liabilities Guarantees issued to customers	<u>178,150,131</u>	<u>116,866,573</u>
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b) contingent assets

There was interest in memorandum accounts accumulated on loans and advances under litigation amounting to Birr 32,537,017,37,(2005, Birr 26,195,178)

c) Commitments

Letters of credit	471,373,725	323,760,256
Margin held on L/C	<u>(136,392,485)</u>	<u>(103,601,739)</u>
	334,981,240	220,158,517
Outward bills for collection	25,879,359	4,045,131
Inward bills for collection	<u>33,477,131</u>	<u>20,734,317</u>
	<u>394,337,730</u>	<u>244,937,965</u>

d) The un-utilized balances of overdraft facilities granted to customers at 30 June 2006 amounted to Birr 259,868,000. It was Birr 219,594,000 in 2005.

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.