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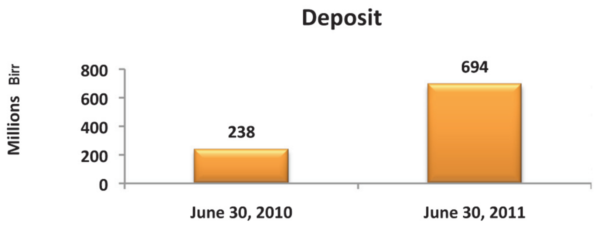
BERHAN INTERNATIONAL BANK S.C.

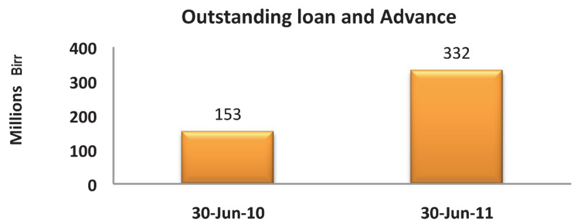
ANNUAL REPORT

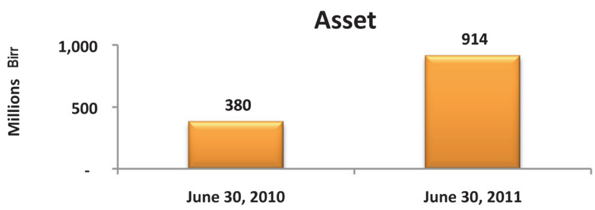
July 1, 2010 - June 30, 2011

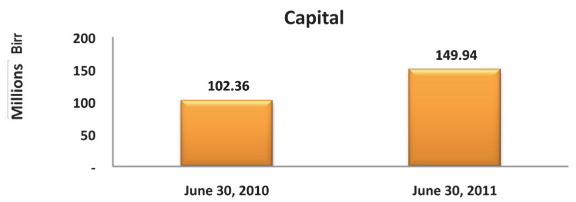
Content

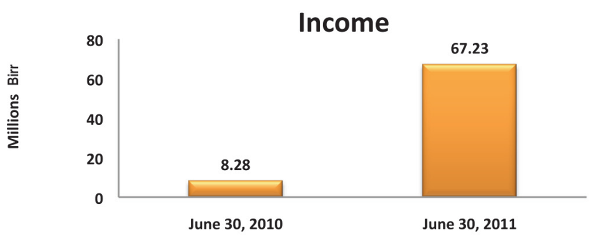
Performance Summary

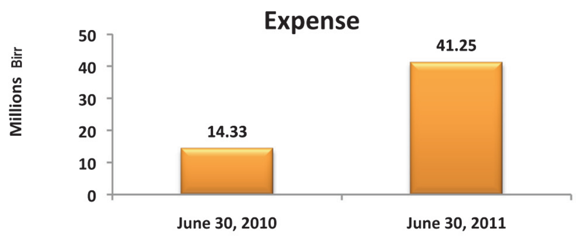


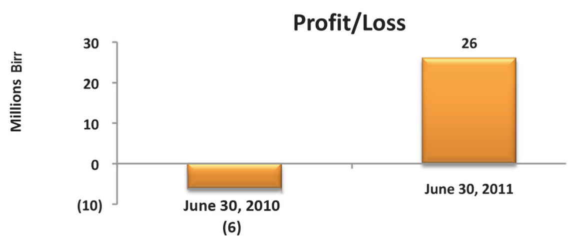


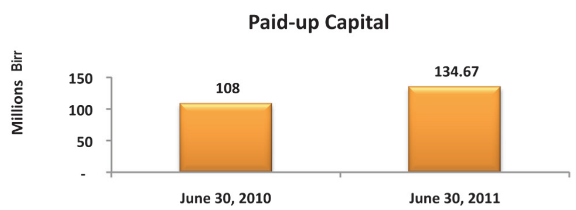


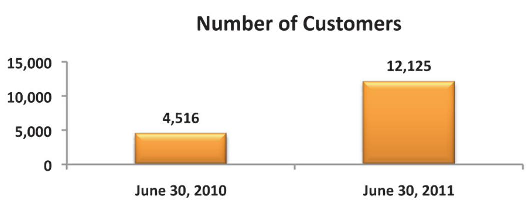


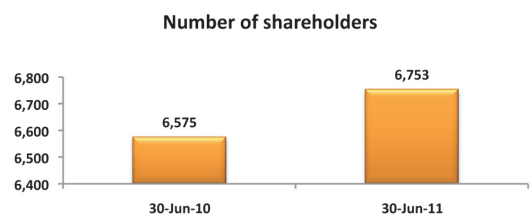












BOARD OF DIRECTORES

Daniel Kitaw (Dr. Ing.)
Chairman

Solomon Alemseged
Vice Chairman

Lemma Degefa (Dr.)
Board Member

Yewubdar Gebeyehu(Eng.)
Board Member

Akalewold Bantirgu
Board Member

Alamirew Moges
Board Member

Berhanu Shefine
Board Member

Badeg Bekele (Prof.)
Board Member

Tenagne Lemma
Board Member

Geleso Bore
Board Member

EXECUTIVE MANAGEMENT

Belachew Bogale
President

Dereje Shefine
Director-Human Resource & Property Admin. Department

Ashenafi Feyissa
Director-Credit Management Department

Solomon Mammo
Director-Information System Department

Emawayish Addisu
Director-International Banking Department

Alemayehu Adaga
Director-Domestic Banking Department

Sihen Tsige
Director-Finance & Treasurry Department

Yimenashu Kasahun
Director-Internal Audit Department

Yohannes Hussen
Manager-Risk Management Division

Daniel Gebremedhin
Manager-Planning & Business Development Division

Message from Board Chairman

It gives me great pleasure and it is an honour to report to esteemed Berhan Bank shareholders, of for the second time, the remarkable achievement of the Bank for the year covering July 1, 2010 to June 30, 2011.

During the year, the world economy lost momentum in recovering from the crisis despite measures taken to correct it by the big global economies. The US and most of the Euro Zone economies have suffered from unemployment, budget deficits and external debt while the Asian and emerging countries' economies remain strong.

The earth quake and the Tsunami in Japan, and the uprisings in the Arab countries were also major events during this year. The events have adversely affected the world economy by rising inflation, particularly in non-oil producing countries through raising the price of oil.

As a result the Ethiopian economy, suffered from inflation that reached 38.1% (Central Statistics Authority) resulting in a significantly higher cost of living. In spite of this, during the year our country recorded an economic growth of 11.4% (Ministry of Finance and Economic Development).

To this effect, the National Bank of Ethiopia has taken a number of monetary policy measures some of the measures are: devaluation of exchange value of Birr against US Dollar, increase in interest rates, lifting of the credit cap set on credit sanctions of Banks and the imposition of buying NBE bills amounting to 27% of loan disbursement. Though the policy measures are well thought the directive issued on the purchase of NBE bills has posed a significant challenge on the income and liquidity of our Bank as a newly established Bank.

Despite this tight policy environment, our Bank has managed to achieve remarkable results. In its second year of operation the Bank has registered a gross profit of Birr 26 million. During the year the Bank's total deposits reached Birr 694 million, an increase of Birr 471.9 million or 211.6%. The Bank's outstanding loans have reached Birr 332 million, depicting an increase of Birr 178.6 million from the level of last year. Moreover, total assets reached Birr 913.7 million increasing by Birr 534.3 million or 140.8% from that of last year. In addition, the paid up capital of the Bank also reached Birr 134.6 million an increase of 24% from the preceding year.

Separate from our Bank's operations and performance, we initiated the establishment of the Berhan Insurance Company. Moreover, our Bank was first in implementing the ATS project, initiative of the NBE aimed at modernising the national payment system of the country.

To achieve a sustainable growth, the Bank is working on its' planned activities for increasing revenue promoting fee based income and introducing new electronic Banking services. The plan also encompasses increasing the level of deposits, raising the capital of the Bank per the new requirement of the regulatory body, increasing mobilization of foreign currency and acquiring land for future construction of the Bank's building.

I call upon each shareholder to closely work with the Bank by mobilizing deposit , foreign currency and by buying additional shares in fulfilment of the new requirement of the NBE and further more by being ambassadors of the Bank so that the Bank may make strides toward additional success in an environment which has become challenging

With hope that the current year be even more fruitful, I would like to thank on behalf of my fellow board members and myself, all shareholders for their trust, the management and staff of the Bank for their unreserved effort to bring the Bank this far and the NBE for its all-around support.

Daniel Kitaw (Dr.Ing)

Chairman, Board of Directors

Message from the Bank President

It gives me great pleasure to see Berhan International Bank S.C. climb the next step of its business ladder; a ladder that bolsters the hope and confidence of all stakeholders.

In the years prior to the reporting year the Bank had been focusing on organizing major head office units and primary branch outlets that served as a stepping stone for the ensuing business operation. As we know, some emerging Banks, including our Bank, unveiled their inaugural at the time of unprecedented global economic turmoil. All of a sudden, leading big Banks shattered, oil prices skyrocketed, and a global food crisis appeared in different parts of the world. Because of the sudden upsurge in oil price the price of all imported goods doubled and tripled domestically with no sign of abatement to date. Consequently, the Bank was forced to invest a great deal of its capital in purchasing office equipment, furniture and vehicles which previously could have been acquired with a significantly less investment.

Furthermore, the cost of labor, building rental, office consumable items and the like have shown tremendous increase due to inflation. At the same time, new regulatory requirements were put in place in view of initially curbing ever growing inflation by setting a credit ceiling and which later culminated to bill purchase obligation. Though appropriateness of fiscal and monetary tools applied by the government to bring macroeconomic stability is not an issue of discussion, its impact on emerging Banks like ours has been quite a challenge.

Accepting this reality as an opportunity, the leadership of our Bank (the Board and Management) focused on strategic issues that would ensure the competitiveness of the Bank. Hence, measures were taken to put the Bank on a sound technological base, establishing of core Banking system from the outset.

With this plan the Bank managed to open its doors to public service using fully automated and networked branches. This is a remarkable achievement of our Bank; no peer had ever dared to try as a new entrant. Since then, despite unwelcoming economic and regulatory realities, the Bank has been registering affirmative upshot in all of its' Banking operations from time to time. After a modest and natural loss sustained during 2009/2010, the Bank has proved its resilience by yielding a profit of 26 million Birr in 2010-2011, right after its first year of operation. Deposits of the Bank are also showing steady growth and reached Birr 694 million during the year under discussion. Similarly, the Bank's outstanding loans have reached Birr 332million in 2010/11. As far as portfolio distribution is concerned, the largest portion goes to domestic trading and the smallest being consumer loan. However, the Bank extends credit to all types of business ventures like foreign trade, construction, transport, hotel and tourism and others based on the requests of the customers.

Another encouraging achievement is opening of nine branches in different parts of the country which are fully automated and connected by WAN. Utilization of state -of -the -art technology in Banking has enabled the Bank to provide efficient service to its customers. Operating an account in any one of Berhan branches irrespective of the location of initial account, getting SMS message for every transaction and balance confirmation, the application of straight through processing(STP) for check transaction with other Bank and so on, has enhanced convenience for our customers.

In order to meet the growing demand of credit request and thereby alleviate liquidity problem, branch expansion in selected areas of the country remains crucial point of our business strategy. Besides, enhancement of Banking technology for services like mobile Banking, internet and others are to be implemented shortly.

As an emerging Bank, however, we have enormous challenges before us. These challenges include liquidity, building our customer base, retaining qualified employees, obtaining suitable rental buildings, unchecked inflation, and erratic foreign currency flow. Never the less, it is my great conviction that given the growing shared vision and ownership taken among the entire Berhan International Bank's community, our Bank will be triumphant and soon shows an even higher level of performance.

Finally, I take this opportune moment to thank all individuals and institutions that provided their continued support in moving the Bank forward. Special gratitude goes to our esteemed customers for deciding to work with us and put their trust on our endeavour. I also appreciate National Bank of Ethiopia for its regular support and patronage as a new Bank. Ethio-Telecom deserves special thanks for its unreserved support throughout the networking process of the Bank. Sincere appreciation goes to the Board of Directors of the Bank for their perseverance and continual leadership since the inception of the Bank. Also special gratitude goes to all management and staff of Berhan International Bank for showing ownership and commitment throughout.

Belachew Bogale
President

Board of Directors' Report

I. Background

1. Economic Highlight

According to the World Economic Outlook, the real GDP growth of the world economy in 2011 is 4%. Recovery is ambiguous as unemployment remains high in advanced economies and financial conditions seems to improve, although they remain fragile. In many emerging market economies, demand is robust and overheating. Developing economies, particularly in sub-Saharan Africa, have resumed rapid and sustainable growth. Rising food and commodity prices pose a threat to poor households, adding to social and economic tensions, notably in the Middle East and North Africa. The tension on the Middle East and North Africa has caused an increase in global oil prices.

In 2010/11, Ethiopia has continued to register the rapid growth as it does for the last six to seven years. The Gross Domestic Product (GDP) growth was 11.4% in 2010/11 remained strong according to Ministry of Finance and Economic Development (MOFED). In reviewing the economic sector, the contribution of the service sector 46.7% is still dominate on 2010/11, followed by the agriculture and the industrial sector 41.1% and 13.4% respectively. However, the country continues to struggle with the macroeconomic challenge of high inflation.

The government's five-year Growth and Transformation Plan (GTP) was launched in 2010/11. The plan calls for the agriculture sector to become the major source of economic growth. Industrial growth will also be given particular attention. The government intends to promote industrialisation through increased exports and import substitution.

In 2010/11 various macroeconomic policies were introduced to stabilize the economy of the country. In September 2010, the government has devalued Birr by 20% to increase exports and the level of external reserves.

Following the devaluation, MoFED introduced a windfall tax, which is a new form of taxation that enforces banks to surrender 75 per cent of gain on foreign exchange. The NBE has also increased the interest rate from 4% to 5% that helps to increases the domestic saving thereby contributing a share in the realization of GTP.

In addition to the above, following the lifting of two years old credit cap, the NBE instituted the Bill Purchase Directive. This bill purchase directives requires private banks to allocate 27% of their lending to the purchase of five years bond with the rate of 3%. Though the policies are appropriate to stabilize the macro economy of the country as a newly established Bank, it posed challenge to the liquidity and income of our bank.

II. Operational and Financial Performance

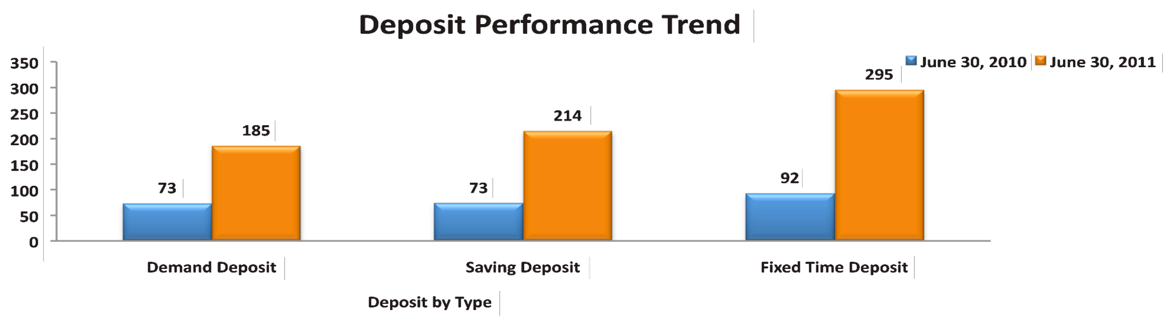
1. Operational Performance

1.1. Deposit Mobilization

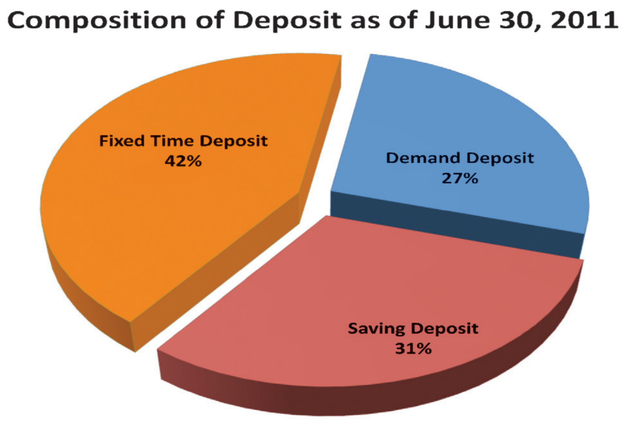
As at June 30, 2011, the aggregate deposits of the Bank has reached Birr 694.3 million, showing a remarkable increment of Birr 456.2 million (192%) compared to the preceding year.

Deposit Performance as of June 30, 2011

Types of Deposit	June 30, 2011	June 30, 2010	Comparison	
			Absolute	Percentage
Demand Deposit	185,308,679	72,764,985	112,543,694	155%
Saving Deposit	214,210,646	72,942,786	141,267,860	194%
Fixed Time Deposit	294,737,680	92,302,995	202,434,685	219%
Total Deposit	**694,257,005**	**238,010,766**	**456,246,239**	**192%**



Looking at the composition of the deposits of the Bank, the lion's share goes to fixed time deposits, which account for Birr 294.7 million (42%). Compared to last year it increased by Birr 202 million (219.3%). Savings and demand deposits accounts reached Birr 214.2 million (31%) and Birr 185.3 million (27%) depicting remarkable increase of Birr 141.2million (194%) and Birr 112.5 million (154.7%) compared to last year respectively.



During the reporting period the number of account holders of the Bank reached 12,125. Compared to the last year's number 4,516 it exhibited a growth of 168%.

1.2. Loans & Advances

Outstanding balance of loans and advances of the Bank has reached Birr 331.8 million at the end of June 30 2011; the figure showed an increase of Birr 178.6 million or 117% as compared to the previous year. During the period under review the Bank managed to disburse Birr 312.4 million and collect Birr 192.1 million to and from its loan customers.

Loan and Advance as of June 30, 2011

	June 30, 2011	June 30, 2010	Comparison	
			Absolute	Percentage
Outstanding Loan and Advance	331,818,499	153,194,041	178,624,458	117%
Disbursement	312,400,000	153,620,000	158,780,000	103%
Collection	192,140,000	9,880,000	182,260,000	1,845%

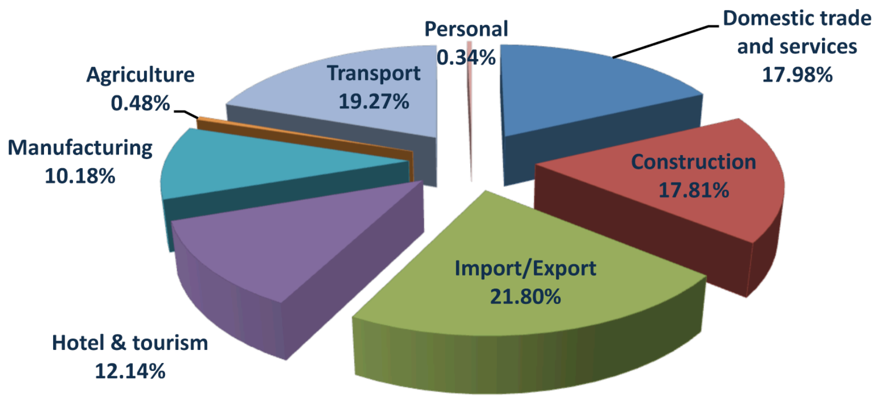
Distribution of Loans and Advances by Economic Sector

During the reporting period, import-export, transport, domestic trade & service and construction sectors account for the major share of 21.8%, 19.27%, 17.98% and 17.81% respectively of the total loans portfolio of the Bank.

Loan and Advance portfolio as of June 30, 2011

Economic Sector	June 30, 2011	June 30, 2010	Comparison from June 2010	
			Absolute	Percentage
Domestic trade and services	59,644,645	27,315,716	32,328,929	118%
Construction	59,111,321	15,385,978	43,725,343	284%
Import /Export	72,346,943	55,790,106	16,556,837	30%
Hotel and Tourism	40,270,108	28,906,126	11,363,982	39%
Manufacturing	33,764,561	9,202,958	24,561,603	267%
Agriculture	1,607,397	1,524,575	82,822	5%
Transport	63,954,787	14,760,246	49,194,541	333%
Personal	1,118,737	308,336	810,401	263%
Total	**331,818,499**	**153,194,041**	**178,624,458**	**117%**

Loan and Advance Breakdown



1.3. International Banking

During the year under review, the Bank has registered an income of Birr 24.85 million from international banking services, which accounts for 37% of the total income of the Bank. The income from international banking has increased by 1346% or Birr 23.1 million compared to the preceding year. During the period under review, the Bank has able to mobilize 24.4 million USD from various foreign currency sources.

Even though the Bank is a new entrant to the industry, it has managed to build strong relationship with the following renowned international banks over the globe: Commerzbank (Germen), Standard Chartered Bank (America), Bank Natixis' (France), UniCredito Bank (Italy), Bankwe Indosuez (Djibouti), and Douche Bank Americas (America). Moreover, the Bank is a member of SWIFT and has a bilateral SWIFT arrangement with a number of Banks

2. Financial Performance

2.1. Assets

As of June 30, 2011, the total assets of the Bank reached Birr 913.7 million accounting for an increase of Birr 534.3 million (140.8%) as compared to that of the preceding year.

2.2. Capital

As of June 30, 2011, the total capital including undistributed profit of the Bank reached Birr 149.9 million, as compared to the previous year it has depicted an increase of Birr 47.58 million (46%).

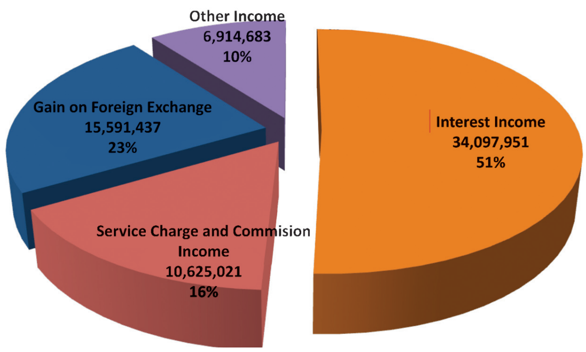
Description	June 30, 2011	June 30, 2010	Comparison	
			Absolute	Percentage
Capital	149,942,071	102,358,658	47,583,413	46%
Paid –up capital	134,671,304	108,324,930	26,346,374	24%
Subscribed Capital	176,377,500	154,397,185	21,980,315	14%
Number of shareholders	**6,753**	**6,575**	**178**	**3%**

The paid-capital of the Bank at the end of the period reached Birr 134.7million, while the subscribed capital stood at Birr 176.4 million. The number of shareholders reached 6,753 as of June 30, 2011.

2.3. Income

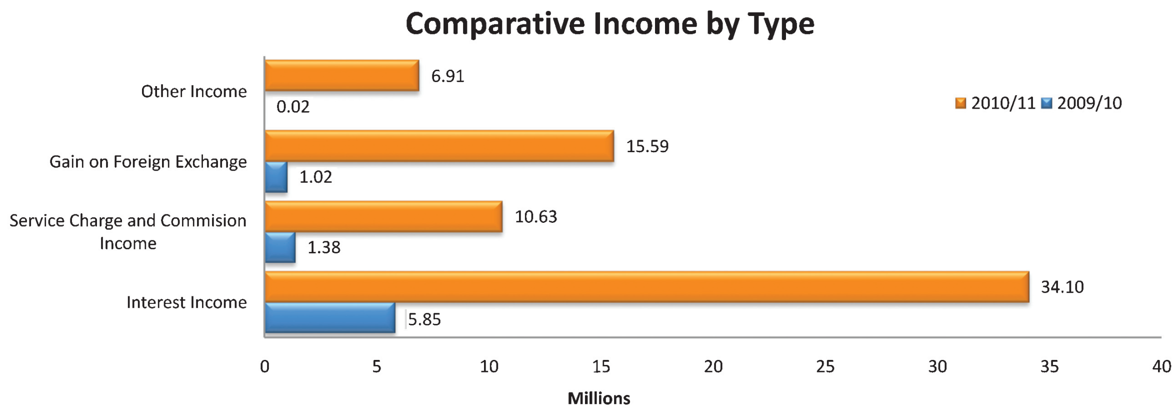
The total operating income of the Bank during the year reached Birr 67.2 million, exhibiting a remarkable increase of Birr 58.9 million (712%) as compared to the previous year income of Birr 8.3 million.

Composition of Income as of June 30, 2011



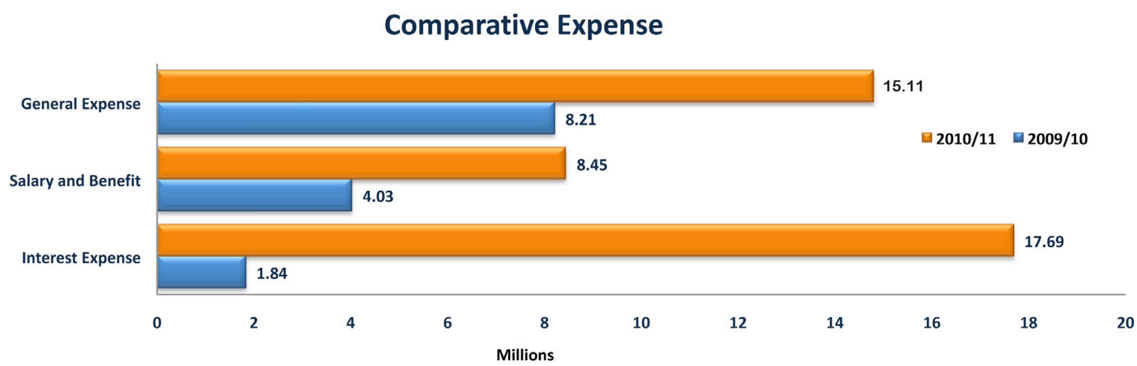
Looking at the breakdown of income, the Bank has gained Birr 34.1 million from interest income, which constitutes (51%) of the total income and Birr 33 million as non-interest income constituting (49%) of the total income.

Out of the non-interest income Birr 15.6million was gain on foreign exchange, which accounts (23%) of the total income. In addition, commission and service charge income amounts to Birr 10.6 million contributing 16% to the total income of the Bank.



2.4. Expenses

During the period under review the total expense of the Bank is Birr 41.25 million, it exhibits Birr 26.02 million (209%) increment from the previous fiscal year.

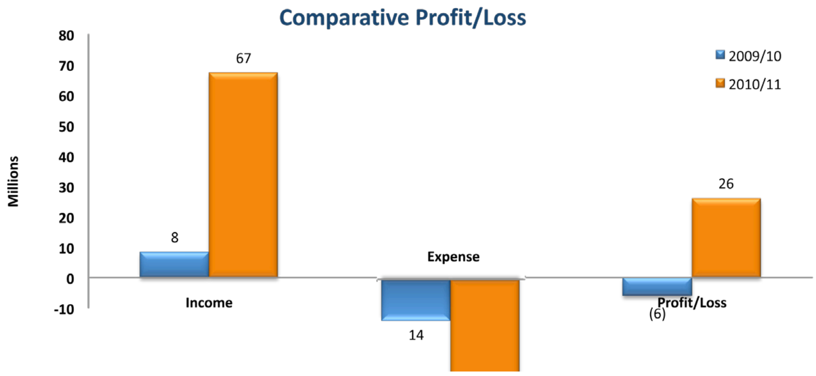


Looking at the total expenses of the Bank, interest expense takes the lion's share amounting to Birr 17.7 million (43%), followed by general expense of Birr 15.11 million (36%) and salary and benefit expense Birr 8.4 million (21%).

2.5. Profit

Despite the economic challenges happening at the local and international level, which have direct and indirect impact on the banking industry, Berhan International Bank has demonstrated formidable achievement during this reporting year.

The Bank has gained a profit of Birr 26 million before tax and after provision. It is remarkable increase of 529% compared with last year loss of Birr 6 million.



III. Business Development Overview

1. Branch Network

The Bank's branch network as of the reporting period has reached nine. Six of them are located in the metropolis, while three are located in regional towns of Bahirdar, Adama and Hawassa. The Bank is working on further expanding its branches throughout the country.

2. Information Technology

Berhan International Bank S.C is one of the few Ethiopian banks to apply core-banking solutions from the outset. This state- of- the- art - technology has enabled the Bank to provide distinct banking services and boosts the overall efficiency the Bank.

The Technology allows the Bank to provide SMS messages on each account transaction, operating an account at any of the Bank's branches, opening and transacting savings account without passbook and opening an account without bringing a photograph.

Using this banking technology infrastructure, the Bank within a short period of time is on the way to providing SMS Banking, Internet Banking and Card Banking services. In addition, the Bank is the first bank to interface with the National Payment System (NPS) as the NBE launched its NPS nationwide with the support of the World Bank

3. Human Resource

As of June 30, 2011, the Bank's total number of staff reached 188. Out of this 115 are clerical and 73 non-clericals. The gender composition of the human resource indicates that 137 are males and 51are females. The number is a 36% increase from that of the previous year, which is due to the overall expansion of operation the Bank.

Out of the total number of staff, more than 66 staff has a first degree and above. The Bank has undertaken continuous trainings and human development activities to enhance the staff's capacity.

4. Future Plans

To keep up the existing record of success, the Bank is working on achieving its future plans.
The plans encompass increasing revenue by developing fee based income and introducing new electronic banking services. It also incorporates increasing the level of deposit, raising the capital of the bank to fulfil the new requirement of the NBE, increasing foreign currency mobilization, further expanding the Bank's branch network at feasible areas, and acquiring land for future construction of the Bank's head quarter building.

Financed Project : Gift Real Estate

Financed Project : Country Club Development

Financed Project : Tewabech Tekle Hotel (Adama)

Financed Project : Floriculture of Marginpar PLC

Board and Management Performance Evaluation Meeting

Inauguration of Bole Branch

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የተፈቀደላቸው ኦዲተሮች
Tel: +251-011-466 11 57 Mobile: 251-091-122 32 10
Fax: +251-011-446 15 36 » 251-091-198 35 72
አዲስ አበባ ኢትዮጵያ

Degefa Lemessa Authorized Auditors
Limited Partnership
Chartered Certified
Accountants
P.O.Box: 8118
E-mail: deg.lem@ethionet.et
Addis Ababa Ethiopia

AUDITORS' REPORT TO THE SHAREHOLDERS OF BERHAN INTERNATIONAL BANK S.C.

We have audited the accompanying balance sheet of Birhan International Bank S.C. as of 30 June 2011 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly in all material respects, the financial position of Berhan International Bank Share Company as at 30 June 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards applied on a consistent basis.

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

Degefa Lemessa Authorized Auditors
Limited Partnership
Chartered Certified Accountants

Addis Ababa
October 13, 2011

BERHAN INTERNATIONAL BANK S.C
BALANCE SHEET
AS AT 30 JUNE 2011

				2010
ASSETS EMPLOYED	**Notes**	**Birr**	**Birr**	**Birr**
Fixed assets	2.1,3		13,364,527	8,339,452
Deferred expenditure	4		5,621,782	5,599,860
Investment			28,933,100	-
Deferred tax Asset	12		156,406	83,596
CURRENT ASSETS				
Stocks	5	1,244,768		3,505,782
Other assets	7	7,372,727		13,463,088
Loans & Advances	6	328,106,951		151,660,741
Cash on hand and at bank	8	528,982,945		196,867,531
		865,707,391		365,497,142
CURRENT LIABILITIES				
Creditors	10	61,735,857		36,247,873
Provision for taxation	11	4,818,534		-
Deposits by customers: Demand	9a	185,308,679		72,764,985
: Saving	9b	214,210,646		72,942,786
: Fixed time	9c	294,737,680		92,302,995
		760,811,396		274,258,640
Net Current Assets			104,895,994	91,238,502
			152,971,809	105,261,410
Refund to shareholders	12		(3,029,738)	(2,902,752)
			149,942,071	**102,358,658**
FINANCED BY				
Paid up Capital	13		134,671,304	108,324,930
Legal reserve			5,309,260	-
Retained earning /accumulated loss			9,961,507	(5,966,272)
			149,942,071	**102,358,658**

Board Chairman

President

BERHAN INTERNATIONAL BANK S.C
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Birr	Birr	2010 Birr
INTEREST INCOME	14	34,097,951		5,854,990
INTEREST EXPENSES		(17,693,717)		(1,837,228)
NET PERATION INCOME			16,404,234	4,017,762
NON-INTEREST INCOME	15		33,131,141	2,420,555
			49,535,375	6,438,317
EXPENSES				
Salary and benefit	16	8,445,017		4,025,499
General and administrative	17	12,627,101		6,680,173
Directors fee		247,370		203,213
Provision for loans and advances		2,178,248		1,533,300
Audit fee		54,875		46,000
			(23,552,611)	12,488,185
Profit/Loss before tax for the year			25,982,764	(6,049,868)
Provision for taxation			(4,818,534)	-
Deferred tax asset			72,810	83,596
Profit/Loss after tax			21,237,039	(5,966,272)
Transfer to legal reserve			(5,309,260)	-
Retained earning for the year			15,927,779	-
Loss brought forward			(5,966,272)	-
Retained earning/accumulated loss carried forward			**9,961,507**	**(5,966,272)**

Degefa Lemessa Authorized Auditors Limited Partnership Chartered Certified Accountants Addis Ababa Ethiopia

Board Chairman

President

BERHAN INTERNATIONAL BANK S.C
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2011

			2010
	Birr	**Birr**	**Birr**
Cash Flow from Operating Activities			
Profit before tax		25,982,764	(6,049,868)
Adjustment for :Depreciation		2,844,732	1,232,943
Amortization		1,672,337	1,068,053
Provision for loans and advances		2,178,248	1,533,300
Cash flow before change in working capital		32,678,081	(2,215,572)
Increase in stocks	2261014		(2,971,754)
Increase in other assets	6,090,362		(12,216,168)
Increase in loans and advances	(178,624,458)		
			(153,194,041)
Increase in creditors	25,487,984		35,796,699
Increase in deposits	456,246,239		238,010,767
Increase in refund to shareholders account	126,986		52,714
		311,588,126	105,478,217
Cash flow from operating activities		344,266,207	103,262,645
Cash Flow from Investing Activities			
Purchase of fixed assets	(7,869,807)		(5,697,844)
Investment in equity & NBE bills	(28,933,100)		-
Investment in computer software	(1,694,257)		(1,046,268)
		(38,497,164)	(6,744,112)
Cash flow from financing activities			
Additional capital collected		26,346,374	12,529,830
Net cash increase for the period		332,115,414	109,048,364
Cash and bank balances at the beging of the period		196,867,531	87,819,167
Cash and bank balnces at the end of the period		**528,982,945**	**196,867,531**

Board Chairman

President

BERHAN INTERNATIONAL BANK S.C
NOT TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2011

1. ESTABLISHMENT

Berhan International Bank S.C has been formed in accordance with Article 304 of the Commercial Code of Ethiopia with the objective of carrying on the banking business as per Article 3 of the Memorandum of Association of the company. The Bank has now been registered and licensed as of 27 June 2009 by the National Bank of Ethiopia. The authorized capital of the company is 300,000,000 and the subscribed capital Birr 154,736,000 divided into shares of 1000 Birr par value each.

2. ACCOUNTING POLICY

The financial statements of the bank are prepared in accordance with the historic cost convention, generally accepted accounting principles and the laws and regulation of Ethiopia including the commercial code of Ethiopia of 1960. Monetary and Banking regulation proclamation No. 591/2008 and supervision of Banking Business proclamation No. 592/2008 and the directives of the National Bank of Ethiopia. The significant accounting policies are set out below.

2.1 Fixed assets are reported in the balance sheet at acquisition cost less accumulated depreciation. Depreciation is computed on straight line basis at the following rates per annum:

	%
Building	5
Office furniture and equipment	20
Motor vehicle	20
Computers	25

Fixed assets in store are not depreciated

2.2 Preoperational expenses are depreciated at 20% per annum on straight line basis.

2.3 Software costs are amortized over four years on straight line basis.

2.4 INTEREST ON LOANS

Interest on loans and advances are recorded when earned. However, interest income on non-performing loans (NPL) is accounted for on cash basis of accounting.

2.5 FOREIGN CURRENCIES

Foreign exchange transactions are stated in Birr at the actual rate ruling on the date of transaction dates.

Foreign currencies on hand and correspondent bank balances at the balances sheet date are translated to Birr at the buying rates.

BERHAN INTERNATIONAL BANK S.C
NOT TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2011

3 FIXED ASSETS

	Balance on 30/09/10 Birr	Addition Birr	Balance on 30/06/11 Birr
Cost			
Furniture and fixture	1,821,523	474,955	2,296,478
Office equipment	1,411,052	950,186	2,361,238
Motor vehicles	4,036,088	2,233,038	6,269,126
Computers & accessories	2,303,733	4,211,628	6,515,361
	9,572,395	7,869,807	17,442,203
Depreciation			-
Furniture and fixture	211,600	400,598	612,198
Office equipment	154,583	363,304	517,887
Motor vehicles	575,914	1,142,506	1,718,420
Computers & accessories	290,846	938,324	1,229,170
	1,232,943	2,844,732	4,077,675
Net book value	**8,339,452**		**13,364,527**

4 DEFERRED EXPENDITURE

	Balance on 30/06/10 Birr	Addition Birr	Balance on 30/06/11 Birr
Cost			
Preoperational expenses	4,276,883	-	4,276,883
Software	2,391,031	1,694,257	4,085,288
	6,667,914	1,694,257	8,362,171
Amortization			
Preoperational expenses	641,532	855,377	1,496,909
Software	426,521	816,959	1,243,480
	1,068,053	1,672,337	2,740,390
Net book value	**5,599,860**		**5,621,782**

INVESTMENT	**Birr**
	26,980,100
National Bank of Ethiopia bills	1,953,000
Berhan Insurance S.C shares	**28,933,100**

BERHAN INTERNATIONAL BANK S.C
NOT TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2011

5 STOCKS

		2010
	Birr	**Birr**
Supplies stock	650,020	672,647
Fixed assets in store	594,748	2,833,135
	1,244,768	**3,505,782**

6 LOANS AND ADVANCES

		2010
	Birr	**Birr**
Domestic trade and services	59,644,645	27,315,716
Construction	59,111,321	15,385,978
Import/ export	72,346,943	55,790,106
Hotel & tourism	40,270,108	28,906,126
Manufacturing	33,764,561	9,202,958
Agriculture	1,607,397	1,524,575
Transport	63,954,787	14,760,246
Staff	1,118,737	308,336
	331,818,499	153,194,041
Provision for loans and advances	(3,711,548)	(1,533,300)
	328,106,951	**151,660,741**

7 OTHER ASSETS

		2010
	Birr	**Birr**
Interest receivable	-	7,164
Uncleared effects	202,783	11,009,589
Sundry debtors	611,213	124,663
Prepayments	2,372,391	2,297,381
Outward clearing	3,784,511	-
Rejected GL-debit	397,856	-
Trial balance difference	3,972	24,291
	7,372,727	**13,463,088**

8 CASH ON HAND AND AT BANK

			2010
	Birr	**Birr**	**Birr**
Cash on hand-Local currency	177,167,814		25,737,585
Cash on hand-Foreign currency	12,747,720		1,938,928
		189,915,534	27,676,513
Correspondent foreign banks	116,708,059		53,174,872
NBE-Reserve account	105,000,000		35,000,000
NBE-Payment & settlement	**55,872,246**		**72,624,059**
Other domestic Banks	61,487,106		8,392,088
		339,067,411	169,191,019
		528,982,945	**196,867,531**

BERHAN INTERNATIONAL BANK S.C
NOT TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2011

9 DEPOSITS BY CUSTOMERS

			2010
9a	Demand deposits	**Birr**	**Birr**
	Business checking	71,434,690	32,461,512
	Corporate checking	13,458,150	2,409,853
	Diaspora account	184,975	-
	Retention account	8,834,059	-
	Personal checking	91,396,805	37,893,620
		185,308,679	**72,764,985**

9b Saving deposits

		2010
	Birr	**Birr**
Personal saving	180,567,728	67,238,170
Business saving	30,215,078	4,199,260
Staff savings	869,508	594,356
Provident fund	2,558,332	911,000
	214,210,646	**72,942,786**

9c Fixed time deposits

		2010
	Birr	**Birr**
Private sector	54,728,772	27,302,995
Financial institutions	240,008,908	65,000,000
	294,737,680	**92,302,995**

10 CREDITORS

		2010
	Birr	**Birr**
Margin held on letter of credits	14,703,706	6,713,848
Payable to organizers	-	60,000
Interest payable	9,187,303	1,332,049
Exchange payable to NBE	218,270	325,940
Inward clearance CPO,and cheques	31,863,209	26,414,161
Suspense	-	300,815
Sundries	5,673,412	873,222
Accrued charges	4,875	227,838
Claims on head office & branches	60,153	-
Unreconciled interbranch account	120	-
Rejected GL credit	24,809	-
	61,735,857	**36,247,873**

BERHAN INTERNATIONAL BANK S.C
NOT TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2011

11 PROVISION FOR PROFIT TAX

		Birr	Birr
(a)	Profit before taxation		25,982,764
	Add: depreciation amortization for reporting purpose	4,517,069	
	Entertainment expense	62,635	
			4,579,704
	Less: Interest income on foreign deposit	21,847	
	Interest income on NBE bills	15,000	
	Windfall gain net of 75% tax	2,894,899	
	Depreciation for tax purpose	4,274,369	
			(7,206,115)
	Loss brought forward for tax purpose		(7,298,212)
	Taxable profit		16,058,140
	Provision for taxation 30%		4,817,442
	Provision for taxation on foreign deposit interest income 5%		1,092
			4,818,534

(b)	LOSS BROUGHT FORWARD FOR TAX PURPOSE	
	Loss brought forward before tax	(6,049,868)
	Add: depreciation & amortization	2,300,996
	Entertainment	6,158
	Donation	70,000
	Less: Interest income taxed at source	(1,603,155)
	depreciation & amortization for tax purpose	(2,022,343)
		(7,298,212)

(c)	DEFERRED TAX LIABILITY	
		Birr
	Depreciation & amortization for tax purpose	4,274,369
	Depreciation for reporting purpose	4,517,069
	Temporary difference	242,700
	Deferred tax asset	72,810
	Balance brought forward	83,596
	Balance carried forward	**156,406**

Degefa Lemessa Authorized Auditors Limited Partnership
Addis Ababa Ethiopia
Chartered Certified Accountants

BERHAN INTERNATIONAL BANK S.C
NOT TO THE ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2011

(d) Depreciation for tax purpose

	Computers	Other assets	Deferred expenditure	Total Depreciation
Depreciation base	1,871,783	6,178,363	6,167,821	
Addition during the year	4,211,628	3,658,179	1,694,257	
Depreciation base	6,083,411	9,836,542	7,862,078	
Depreciation for the year	(1,520,853)	(1,967,308)	(786,208)	4,274,369
Depreciation base carried forward	**4,562,558**	**7,869,234**	**7,862,078**	

12 PAYABLE TO SHAREHOLDERS

This balance represents 30% registration fee collected from shareholders which they were promised to be paid back.

13 CAPITAL

	Number of shares	Par value	Total
Subscribed	176,377.50	1,000	176,377,500
Paid up	134,671.00	1,000	134,671,000

14 INTEREST INCOME

		2010
	Birr	Birr
On loan & advances	32,431,240	4,157,070
Local bank deposits	1,530,932	1,603,155
Foreign banks deposit	21,847	-
NBE bills	15,000	-
Advance against bills	98,932	94,765
	34,097,951	**5,854,990**

15 NON INTEREST INCOME

		2010
	Birr	Birr
Service charge and commission income-local	1,368,751	684,998
Service charge and commission income-foreign	9,256,270	696,797
Commision income on guarantees	6,797,936	
Gain on exchange rate fluctuation	12,696,538	1,021,766
Wind fall gain on currency devaluation net of 75% tax	2,894,899	-
Sundries	116,747	16,994
	33,131,141	**2,420,555**

BERHAN INTERNATIONAL BANK S.C
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16 SALARY AND BENEFITS

		2010
	Birr	Birr
Professional staff salary	4,736,843	2,437,147
Non-professional staff salary	582,712	256,143
Cash indemnity allowance	209,031	72,240
Provident fund	632,871	334,244
Representation allowance	186,925	118,295
Fuel allowance	1,016,468	466,630
Medical	117,882	21,215
Overtime	15,834	9,892
Training and education	69,750	30,117
Uniforms	47,586	47,570
Bonus	505,939	-
Leave pay	206,204	181,263
Telephone	57,521	32,903
Housing allowance	59,451	17,840
	8,445,017	**4,025,499**

17 GENERAL AND ADMINISTRATION EXPENSES

		2010
	Birr	**Birr**
Office rent	3,407,315	1,961,940
Utilities	84,763	21,429
Telephone & postage	283,556	-
Advertisement and promotion	967,372	392,516
telecom charge-Data	626,057	437,260
Stationery & printing	612,101	159,351
Consulting	224,742	117,762
Cleaning and sanitation	28,892	24,438
Other professional fee	148,392	56,695
Repair and maintenance	132,986	32,148
Fuel and lubricant	413,908	76,965
Transport and per diem	237,323	70,961
Inspection and license	5,550	13,878
Depreciation and amortization	4,517,069	2,300,996
Insurance	113,181	50,302
Entertainment	62,635	6,158
Office supplies	86,198	235,183
wage expense	41,271	29,152
Swift and correspondent charges	202,618	55,574
Membership fee	125,000	-
Loss on disposal of chairs	5,133	-
Inauguration	-	91,750
Miscellaneous	301,039	159,415
Loss on exchange rate fluctuation	-	316,300
Donation	-	70,000
	12,627,101	**6,680,173**