



Annual Report 2008/09

Reliability and care with  
an innovative touch



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COMMERCIAL BANK OF ETHIOPIA

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Commercial Bank of Ethiopia



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CBE's Future Head Quarters

## VISION

To Become a World-Class Commercial Bank

## MISSION

We are committed to maximizing shareholder value through enhanced financial intermediation and unparalleled customer satisfaction. We deploy highly motivated, skilled and disciplined employees capable of providing banking products and services that meet international best practices and standards. We strongly believe that reliability and public confidence are the bases of our success.

## VALUES

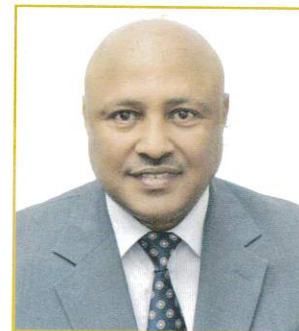
We stand for quality;  
 We are a learning organization;  
 We are committed to unparalleled customer satisfaction;  
 Our employees are our valuable assets;  
 We are committed to maximizing shareholder value;  
 We uphold transparency, accountability and professionalism;  
 We are an equal-opportunity employer; and  
 We are corporate citizens.



# COMMERCIAL BANK OF ETHIOPIA BOARD OF DIRECTORS

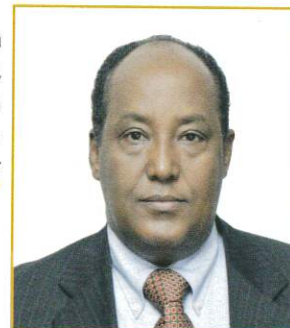


**H.E. Ato Abay Tsehaye,**  
Minister,  
National Security Affairs Adviser  
Board Chairman



**H.E. Ato Fikru Dessalegn**  
State Minister,  
Ministry of Capacity Building  
Board Member

**Dr. Wolday Amha**  
Executive Director,  
Association of Ethiopian  
Micro Finance Institution  
Board Member



**Dr. Mesfin Belachew**  
Assistant Director,  
Ethiopian Information  
Communication  
Technology Agency  
Board Member

**Wzo. Genet Abera**  
General Manager,  
GAWT International Businesses PLC  
Board Member



**Ato Esayas Kebede**  
Agricultural Investment Support  
Directorate Director  
Ministry of Agriculture  
Board Member

**Ato Getachew Negera**  
Treasury Business Process Owner  
Ministry of Finance and  
Economic Development  
Board Member



**Ato Nebiyu Samuel**  
Change Management and Support  
Deputy Director General  
Ethiopian Revenue and Customs  
Authority  
Board Member

**Ato Belay Gorfu**  
CBE  
Board Member



**Ato Wondwessen Assefa**  
CBE  
Board Member

**Ato Alemayehu Hunde**  
Board Secretary



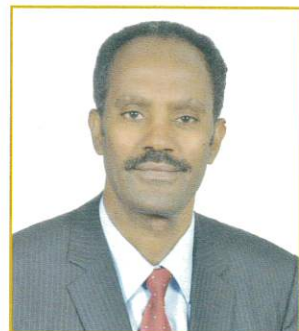


# COMMERCIAL BANK OF ETHIOPIA

## THE PROCESS COUNCIL



**Ato Bekalu Zeleke**  
President



**Ato Abay Mehari**  
Vice President,  
Credit Management

**Ato Wendemagegnehu Negera**  
Vice President, Customer  
Accounts & Transaction Services



**Ato Mohammed Nuredin**  
Vice President,  
Trade Services

**Ato Yehuala Gessesse**  
Vice President,  
Credit Appraisal and  
Portfolio Management



**Ato Endale Gebru**  
Vice President,  
Human Resource Management



**Ato Negussu G/Egziabher**  
Vice President, Finance



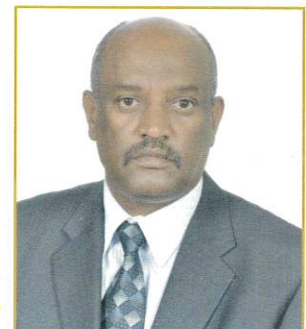
**Ato Solomon Alula**  
Chief Internal Auditor



**Ato Mulugeta Alemayehu**  
Chief Risk and Compliance  
Management Officer



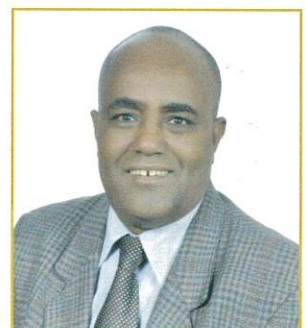
**Woy. Melika Bedri**  
Vice President,  
Information Systems



**Ato Seifu Bogale**  
Vice President,  
Facilities Management



**Ato Kefletsion Mamo**  
Chief Legal and Loan  
Recovery Officer



**Ato Habtu Dimtsu**  
Director,  
Business Development





## THE PRESIDENT'S MESSAGE



The Ethiopian economy continued the double digit growth of the last five years during the fiscal year 2008/09 by recording 10.2 percent real GDP growth, significantly above the average growth realized in sub-Saharan Africa. The good performance of the agricultural sector, due to favorable weather, is the handmaiden of this robust and steady growth, despite the relatively significant contribution of other sectors, notably manufacturing, construction and services. This is a testimony to the fact that the expansion strategy of the country has been broad-based, though inflation grew to steadily become a challenge to the economy.

As a result of the robust growth of the country's economy, the CBE has outperformed its target in the fiscal year. As at the end of fiscal year 2008/09, the total assets of the Bank stood at Birr 59.4 billion, while total deposits and other liabilities reached Birr 43.5 billion, reflecting a growth of 18 and 17.5 percent, respectively over the preceding year. This performance proves that the Bank still maintains its leadership in the industry and, is marching towards accomplishing its vision.

The overall income recorded by the Bank during the fiscal year reached Birr 3.8 billion about Birr 886.41 million higher than the previous fiscal year, and of course an all time high compared with the past years. Its gross profit surged as well to 2.7 billion, showing a 45.5 percent rise when, compared to the preceding fiscal year. The profit would in fact have stood at Birr 3.2 billion, had Birr 480.3 million not been deducted to recompense the rise of the paid-up capital of the Bank to Birr 5.04 billion, suggesting the continued financial strength of the CBE.



A look into the operating results shows that the commendable performance was, mainly the outcome of the growing volume of business in the economy and the unreserved efforts of the staff in handling tasks with due diligence.

Fiscal year 2008/09 was a period during which the CBE undertook various business development efforts, aimed at achieving service excellence. In order to respond to the ever growing needs customers of the Bank has signed agreement with the government to finance housing developments, hence diversifying the range of its credit portfolio and mopping up unutilized funds.

The CBE has, in the fiscal year, demonstrated its commitment of reaching out potential customers by opening 3 additional branches. The opening of these branches not only enables the Bank to widen its customer base, but is also one of the key ways of fulfilling its social responsibility.

The attempt to develop the Bank's IT infrastructure continued in the year, reflecting the Management's commitment to achieve the Bank's vision of becoming a "world-class" bank and remain on top of the banking sector. The Management believes that the Bank should go a long way to further improve its IT structure so that customers could get quality service and the Bank sustains its leading position.

During the fiscal year the Bank has also exercised a massive transformation effort that is believed to enable it to leap forward, and achieve its vision in the dynamic environment. The Business Process Reengineering (BPR), which would bring about a radical and fundamental change in service delivery, was carried out in both the core and support areas of the CBE in the fiscal year.

The transformation endeavor reflects the Bank's strong commitment not only to efficiently deliver the existing products to the various market segments, but also explore new and niche businesses that can become engines of growth. The Management strongly believes that the transformation effort would help the Bank to realize its core principles of becoming performance-oriented, market-driven and customer-oriented. To this end, the Management will invest all the required efforts to bring about a paradigm shift through the implementation of the BPR.

The astonishing operational results would not have come true without the unstinted efforts of the Board of Directors, the Process Council and employees of the Bank, and the loyalty and confidence on the part of customers. Hence, I would like to seize this opportunity to thank all of them for the commitment they demonstrated in achieving such an all-time-high and outstanding results. I hope this commitment will continue with us all in the years ahead as it is the only way to attain our vision of becoming a "world-class" bank.

**Bekalu Zeleke**

President



## PROFILE

The commercial Bank of Ethiopia (CBE) was legally established as a Share Company in 1963 to take over the commercial banking activities of the State Bank of Ethiopia, which was founded in 1942 with twin objectives of performing the duties of both commercial and central banking. During the 1974 revolution, CBE got its strength by merging with the privately owned Addis Ababa Bank. Since then, it has been playing a significant role in the development endeavor of the country.

The CBE, which is striving to become a world-class bank, is rendering state-of-the-art and reliable services to its millions of customers, both at home and abroad. The business strategies of the Bank focus on the interest of the public it serves.

As at the end of fiscal year 2008/09, the Bank had 208 branches stretched across the length and breadth of the country, and 7,955 employees whom it regards as its key assets.

The state-owned CBE still dominates the market in terms of assets, deposits, capital, and customer base and branch network, despite the growing competition from private banks over the last 15 years. This makes it one of the most reliable and strong commercial banks in the country and the region.

Its strong capital base, close to seven decades of rich experience in the market and wide branch network throughout the country have enabled the Bank to accommodate the large demands for its services, and increase its overall revenue on sustainable basis.

As at 30 June (in millions Birr)	2009	2008	Percentage Change
Total income:	3,847.5	2,961.1	29.9
Interest income	2,357.8	1,541.1	53
Non-interest income	1,489.7	1,420	4.9
Total expense:	1,123.9	1,082.5	3.8
Interest expense	614.1	533.9	15
Non-interest expense	509.8	548.6	(7.1)
Profit before tax	2,715.7	1,866.8	45.5
Net profit for the year	1,921.2	1,360.5	41.2
Total Assets	59,411.7	50,343.5	18
Outstanding loans and advances	19,382.1	17,342.4	11.8
Liabilities	54,356.9	45,774.6	18.7
Total deposits	43,489.4	37,005.8	17.5
Capital and reserve	5,040.8	4,560.5	10.5
Number of branches	208	205	1.5
Number of employees	7955	8,033	(1)



## MACROECONOMIC HIGHLIGHTS

Even if the global economy is recovering and has stabilized, it still remains vulnerable to shocks and policy missteps, according to the IMF. The recovery is led by the strong performance of Asian economies, particularly China and India. The advanced economies, which were hit by the collapse of world trade, are showing signs of stabilization as the billions in monetary and fiscal stimulus slowly work their way to the economy. Emerging economies are benefiting from commodity price increases and policy frameworks. However, the IMF predicted that recovery in the Commonwealth of Independent States and emerging Europe is likely to be difficult, especially for economies most affected by sharply falling capital flows and domestic financial sector turmoil.

The IMF projected global growth to reach about 3 percent in 2010, following a contraction in activity of about 1 percent in 2009. During 2010-14, global growth is forecasted to average just above 4 percent, appreciably less than the 5 percent growth rates of the years just before the crisis.





According to the IMF forecast, the current recovery will be sluggish; credit constrained and jobs loss for some time. Governments' policies have successfully improved confidence, demand and financial conditions, and this has helped industrial production to stabilize and increase in a number of emerging economies, notably in Asia. However, in major advanced economies, demand is likely to be dampened by the need to rebuild savings. Households struggling with lower pay and job losses and facing weak labor markets will constrain their consumption of durables and their demand for housing, and are likely to show a higher propensity to save. Furthermore, many firms and households will continue to struggle to repay debt, which will slow the recovery in housing and financial markets. Subdued demand in advanced economies is feared to hold back the recovery of activity in emerging economies.

According to the World Economic Outlook, WEO (October 2009), the monetary, financial, and fiscal policy interventions helped stabilize consumer spending and housing and financial markets in the US economy, and also moderated growth in the second half of 2009. However, markets remain stressed, and this will weigh on investment and consumption. Combined with the impact of rising unemployment, the temporary nature of the fiscal stimulus and subdued growth in trading partner economies, growth will remain sluggish, reaching 1½ percent for 2010 as a whole.

Growth in sub-Saharan Africa slowed significantly as a result of the collapse in global trade and disruptions in global financial markets. The economy is expected to regain momentum as the global recovery gets underway. The IMF projected real GDP growth for the region to be 1¾ percent in 2009 before accelerating to 4 percent in 2010. Economic outlook for oil-exporting countries in sub-Sahara Africa is expected to deteriorate. According to regional outlook of the IMF, the rebound prospect is entirely linked to the oil markets and is expected to be stronger as global growth picks up. The middle income countries in the region are expected to contract by 2½ percent in 2009 and recovery is expected to be slow. The deceleration in low income countries, however, is expected to be moderate with growth of 1¼ percent in 2009.

During the ended fiscal year 2008/09, the Ethiopian economy continued the double digit growth of the last five years and recorded 10.2 percent real GDP growth. During the year, government expenditure increased by 23 percent from Birr 46.9 billion to Birr 57.8 billion. Of the total expenditure, 53 percent is capital expenditure and the balance is for recurrent expenditure. The government revenue, including grants, also increased by 37 percent, which narrowed the deficit by 56 percent from the previous year. Unlike the previous years, the deficit was mainly financed by external borrowing. Net external borrowing was Birr 3.2 billion; and domestic borrowing was Birr (417 million).

In the fiscal year, 8,807 investment projects with capital outlay of Birr 239.5 million were approved. Of the approved projects, 31 percent belong to foreign investors. The construction sector attracted about 33.9 percent of the approved capital, followed by agriculture, hunting and forestry sectors attracting 19.7 percent.

The export sector, however, did not perform as expected. Export earnings declined by 1.2 percent from 2007/08. On the other hand, import payments increased by 12.8 percent from 2007/08.

In effect, the trade deficit widened by 16.8 percent. Remittance transfer also declined by 10.9 percent. However, the net services and other transfers showed growth during the fiscal year.

The fiscal year 2008/09 began with high inflation of 55.2 percent. The decline in commodity prices, especially fuel, in the global market and the measures taken by the government have helped contain the inflation and register 2.7 percent year-on-year inflation rate at the end of the year. The other challenge to the economy during the fiscal year was the dwindling of foreign exchange reserve. The country's foreign exchange reserve, which used to cover more than three months of imports, fell to cover only around one month of import during the ended year. This led to rationing of foreign currency that continued to the end of 2008/09. In addition, Birr depreciated by 18 percent during the fiscal year.

Broad money supply increased by 21 percent from Birr 68.1 billion in 2007/08 to Birr 82.5 billion in the ended fiscal year. Domestic credit increased by 11.5 percent from the preceding year to reach Birr 89.2 billion. Similarly, net external assets increased by 54.1 percent from 2007/08 and reached Birr 18 billion. Likewise, narrow money supply increased by 19.1 percent compared with 2007/08 level as a result of increase in net demand deposits and currency outside banks by 26.6 percent and 11.7 percent, respectively.

During the fiscal year, the total amount of foreign currency traded in the inter-bank foreign exchange market was very low, as compared with the previous fiscal year. The major reason, among others, was the weakening foreign currency reserve position of the country due to the drawdown effects of the external trade balance. This forced the government to look for ways of restoring the foreign currency balance of the country. One of the measures taken in this respect was the hold up of supply of foreign currency in the interbank market. The total amount of foreign currency traded in 2008/09 period was only 18.4 millions of USD, dropping by 84 percent from 114.5 millions of USD traded in 2007/08. The average weighted exchange rate of Birr against USD also depreciated in value and reached 10.4454 per 1 USD from its preceding fiscal year level of 9.2442 (depreciated by about 13 percent). The average exchange rate in the parallel market also depreciated and was traded at 11.8102 during the ended fiscal year as against 9.4989 of the previous fiscal year; but with greater depreciation of 24.3 percent than the formal market depreciation.

Although the ended fiscal year witnessed difficult economic environment, the banking system continues to be sound, liquid and profitable. During the fiscal year, additional private banks joined the sector bringing the number of private banks to 12. During the first quarter, additional two commercial banks were opened and there are several banks under formation. Deposit holdings of commercial banks have increased by 24 percent from that of 2007/08.



## FINANCIAL POSITION

**Net-Interest Income:** The net-interest income of the Bank rose to Birr 1.7 billion in 2008-09, from Birr 1 billion in 2007/08 (73.2 percent rise), mainly on the back of a higher growth in interest income over interest expense.

The annual total interest income grew by 53 percent year-on-year to Birr 2.4 billion, from Birr 1.5 billion in 2007-08. This resulted from the sizeable growth of interest income generated from loans and advances (Birr 1.5 billion), treasury-bills (Birr 12.3 million), bonds (Birr 38 million) and placements with other banks (about Birr 15.5 million), Coupon and term bonds (827.3 million), and Interest earned on fund surrender (about Birr 1.7 million).

On the other hand, total interest expenses on deposits reached Birr 614.1 million, considerably up by 15 percent, relative to last year's level of about Birr 534 million, while the total deposits grew by 17.5 percent.

### Net-interest income (in millions Birr)

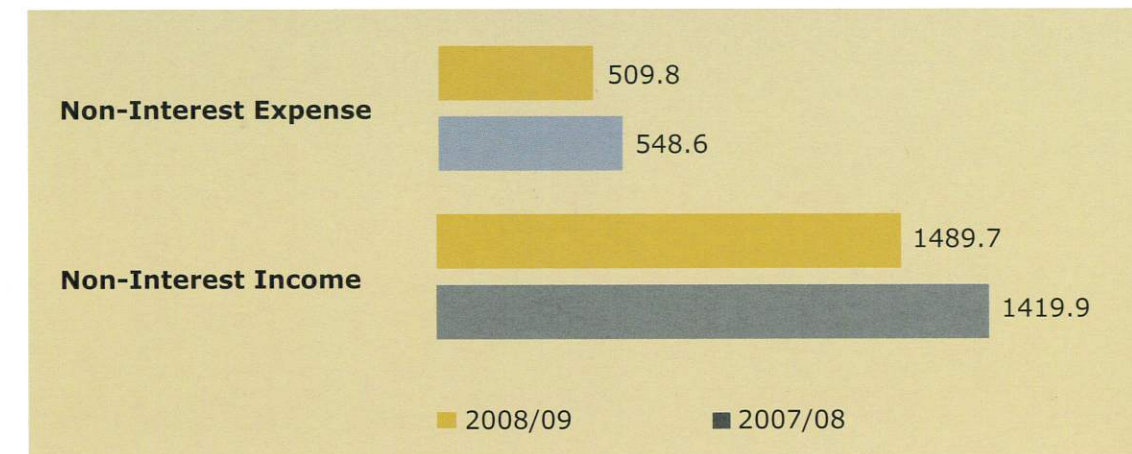
	2008/09	2007/08	Percent change
Interest Income:	2,358	1,541	53
Loans and advances	1,463	886	65.1
Government bonds	38	42.7	(11.0)
Treasury bills	12.3	83.3	(85.2)
Placements with other banks	15.5	51.8	(70.1)
Coupon and term bonds	827.3	477.5	73.3
Interest earned on fund surrender	1.7	0	-
Interest expense:	614.1	533.9	15
Customers' deposits	612.8	533	15
Deposits from other banks	0	0.4	(100)
Other	1.3	0.4	225
Net-interest income	1,743.8	1,007.0	73.2
Net-interest margin (percent)	3.8	2.7	42.2

**Net-Interest Margin:** The net-interest margin for the reporting year was 3.8 percent, higher than the preceding year's level of 2.7 percent, suggesting the need for exerting utter efforts in the years to come to convert the swelling liabilities towards earning assets.

**Non-Interest Income:** Non-interest income for the reviewing period totaled Birr 1.5 billion, up by about 5 percent, compared with the preceding year's balance of Birr 1.4 billion. Non-interest income occupies quite a good sum of the total income of the Bank, maintaining a percentage share of about 39. The increase was due to the surge in commission income from Birr 279 million in 2007/08 to Birr 389 million in 2008/09, gains on disposal of property and equipment from Birr 56.1 thousand to Birr 2.2 million and income from service and transaction fees from Birr 400.6 million to Birr 438.2 million are major reasons for the impressive growth of non-interest income.

Other income and gains from dealing in foreign currency which are used to be the major component previously, declined by 27.1 percent and 8 percent respectively for the review period.

### Non-Interest Income and Non-Interest Expense (in millions Birr)

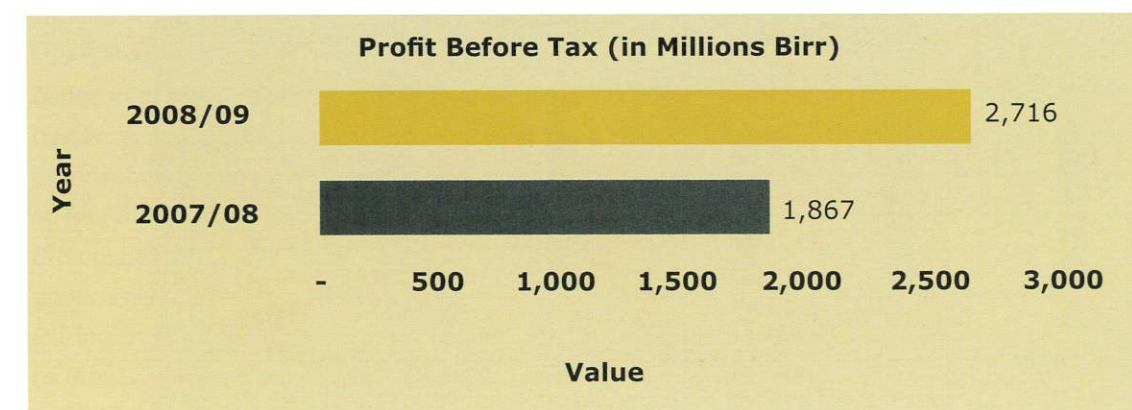


**Operating Expenses:** The overall operating expenses of the Bank stood at Birr 509.8 million at year-end, lowered by 7.1 percent, over the preceding year's total of Birr 548.6 million. This reduction was attributed mainly to the decline in general expenses by about 21 percent. However, interest expense and salary and benefits showed increment over the last due to the increase in deposit mobilized and salary and benefits adjustment respectively during the year.

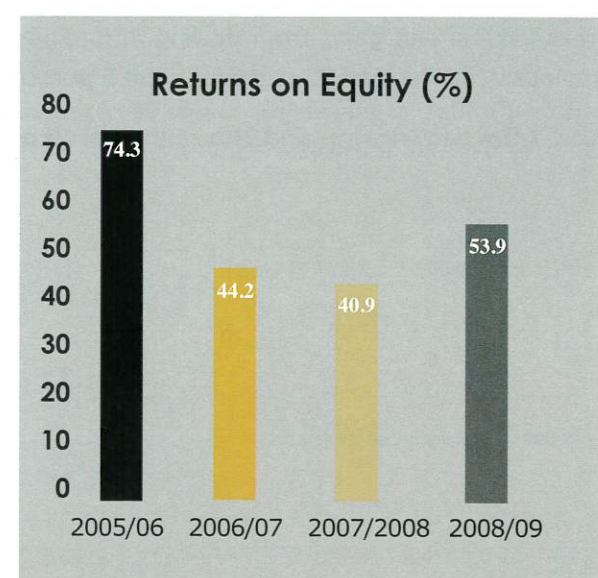
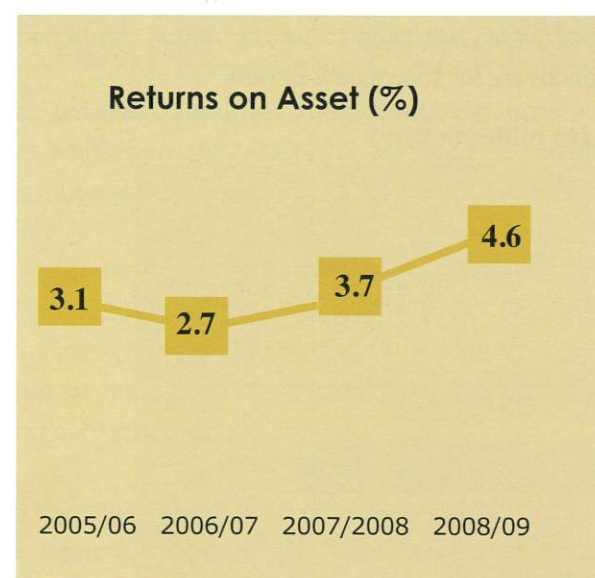
**Operating Profit:** The total income of the Bank, for fiscal year 2008/09, stood at Birr 3.8 billion, registering a growth of about 30 percent, over the corresponding last year's figure of Birr 2.9 billion. This was explained by the notable growth in both interest income and non-interest income. The income generated from foreign banking operations was Birr 1.3 billion, accounting for 33.5 percent of the total income. The total expenses of the Bank went up to Birr 1.1 billion in 2008/09, from Birr 1 billion in 2007/08, mainly due to the significant increase in interest expenses.

Accordingly, the operating profit of the Bank witnessed robust growth for the fourth successive year to reach Birr 2.7 billion, grew by 45.5 percent, compared with the preceding fiscal year.

The net-profit of the Bank stood at Birr 1.9 billion, as against Birr 1.4 billion for the previous year, showing a growth of 41.2 percent. This achievement was possible only due to the commitment of all staff of the Bank and the confidence and trust the customers place on the Bank.



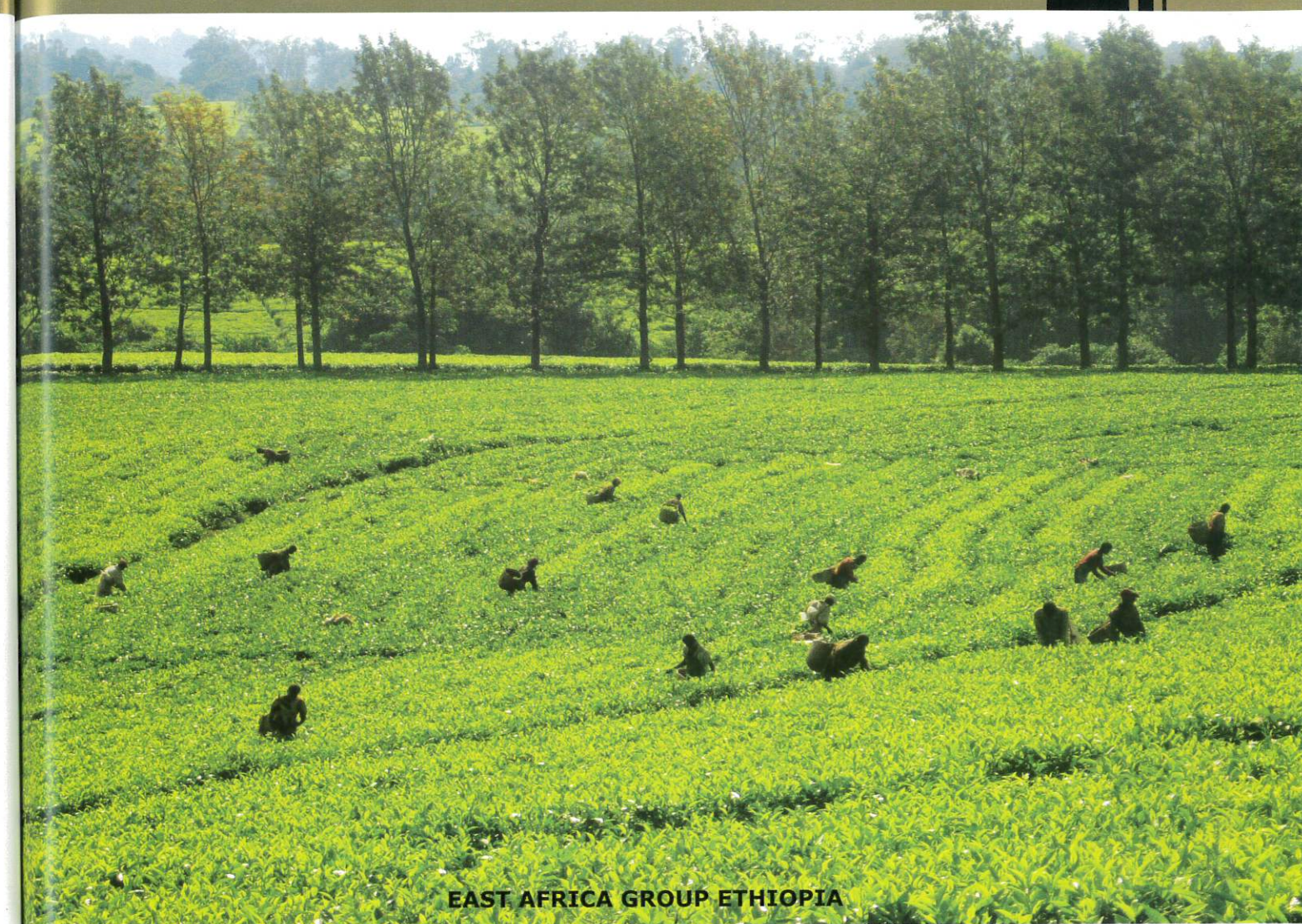
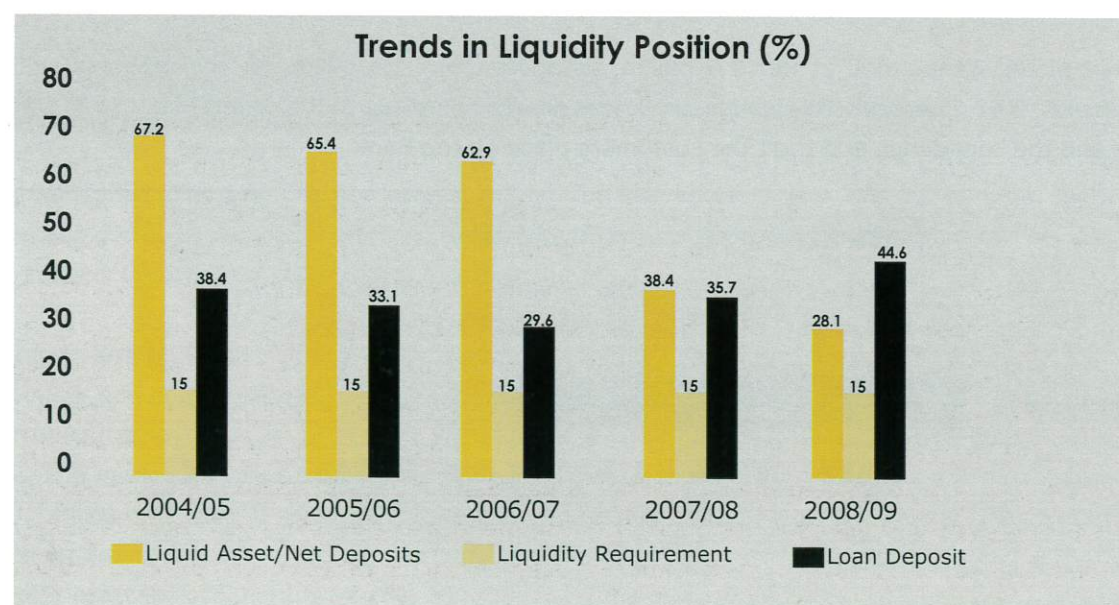




**Earning Capability:** Returns on Assets (ROA) and Returns on Equity (ROE) are both increased to 4.6 percent and 53.9 percent from their previous year corresponding levels of 3.7 percent and 40.9 percent, respectively. The reason for the improvement in ROE is the increase in profit before tax from Birr 1.86 billion to Birr 2.72 billion in 2008/09, which makes the numerator (i.e., profit before tax) much higher than the denominator.

**Liquidity:** The loan-to-deposit ratio, describing the proportion of the total deposits extended to financing loan demands, went down a little, from 47 percent in 2007/08, to 44.6 percent in 2008/09. With its loan-to-deposit ratio still below the level of international standard, the Bank still has wide room to grow and/or to enhance its income and, hence profit in the future. However, if investment on bonds of various types is considered, the ratio will be significantly higher than this figure.

The liquid-assets-to-the-net-deposits ratio further declined to 28.1 percent, from 38.4 percent a year ago, may be indicating the fact that the economy's absorptive capacity for credit is still relatively weak, despite the favorable business environment that the economic growth has brought.



EAST AFRICA GROUP ETHIOPIA

Balance Sheet Analysis		(In Billions of Birr)	
Particulars	2008/09	2007/08	% change
Total assets	59.4	50.3	18.1
Total liabilities	54.4	45.8	18.8
Capital and reserves	5.0	4.6	8.7
Capital adequacy ratio (%)	14.6	17.7	(17.5)

**Assets' Structure:** The balance sheet for the 2008/09 fiscal year indicates that the total assets of the Bank grew by 18.1 percent compared with the preceding year and totaled Birr 59.4 billion. This may suggest that the Bank is strengthening its asset base, which will make it one of the biggest banks in sub-Saharan Africa. This was attributable mainly to the growth of term bonds by 37.2 percent, coupon bonds with the Development Bank of Ethiopia and regional states by 68.8 percent, loans and advances to customers by 13.69 percent, and loans and advances to banks by 141 percent. Specifically, investment in term bonds and coupon bonds went up to Birr 11.8 billion and 8 billion, from their previous year's level of Birr 8.6 billion and Birr 4.8 billion respectively, whereas cash and balances with the National Bank of Ethiopia shrank from Birr 9.9 billion in 2007/08, to Birr 8.8 billion in 2008/09. Similarly, investments in government securities decreased from Birr 6.5 billion to Birr 5.4 billion in the same reference period. During the fiscal year, among the group investment in government securities, treasury bills were slashed to Birr 1.7 billion from its level of Birr 2.6 billion while government bonds were reduced to Birr 3.7 billion in 2007-08, which is a decrease by 4.4 percent.





BAZEN AGRICULTURAL &amp; INDUSTRIAL DEVELOPMENT ENTERPRISE

Assets	2008-09	2007-08
Loan portfolio (Billions Birr)	19.4	17.4
Total Assets (Billions Birr)	59.4	50.4
Asset quality:		
NPL-to-total loans ratio	3.7	5.3
NPL-to-total assets ratio	1.2	1.8
Provision-to-total loans ratio	3.6	6.2

**Loan Portfolio:** The total outstanding loans and advances portfolio of the bank as at end of the fiscal year totaled Birr 19.4 billion, showing a modest increase of 11.8 percent, over the preceding year balance of Birr 17.3 billion. Looking into the distribution of loans and advances by major end use shows that domestic trade and services, foreign trade, agriculture, and the manufacturing sectors stood at Birr 3.53 billion, Birr 7.9 billion, Birr 3.17 billion, and Birr 2.34 billion, respectively, which in the aggregate amounts to 87.4 percent of the total outstanding loans balance of the review year. The outstanding loans and advances balance of the domestic trade sector declined by 7.2 percent, compared with the preceding year's balance. In the fiscal year, components of loans and advances to customers increased against the previous year. The highest increase was observed in the building and construction sector (73.3 percent), followed by personal loans (24.3 percent), agriculture (16 percent) and manufacturing sector (14 percent). However, Looking into the composition of the total outstanding loans and advances, foreign and domestic trade services accounted for 40.7 percent and 18.2 percent respectively, which implies the bank's continued involvement in supporting both domestic and foreign trade sector. Agriculture took 16.4 percent of the total outstanding loans and advances while the manufacturing sector took 12.1 percent.

## Outstanding loans and advances by sector\* (in millions Birr)

Particulars	2008/09		2007/08	Year-on-Year % Change
	Amount	% Composition	Amount	
Loans to customers	18,948.07	97.8	17,162.07	10.4
Agriculture	3,173.55	16.4	2,737.53	15.9
Manufacturing	2,338.55	12.1	2,053.07	13.9
Domestic trade	3,527.63	18.2	3,802.03	(7.2)
Foreign trade	7,891.38	40.7	7,378.42	7.0
Building and Construction	1896.88	9.8	1094.43	73.3
Personal	120.09	0.6	96.592	24.3
Loans to banks	434.07	2.2	180.414	140.6
Total outstanding loans	19,382.15	100.0	17,342.48	11.8

\*Excluding Investment in Government Securities and Bonds and Bonds and Placement with Other Banks.

During the review period, the amount of fresh-loans disbursed to the various economic sectors reached Birr 11.1 billion, which is a reduction by 18.3 percent compared with the preceding year's level of Birr 13.6 billion. Of the total loans disbursed, the import sub-sector absorbs the highest share of Birr 3.4 billion (30.7 percent), followed by the agriculture sector, the domestic trade sub-sector, and building and construction claiming Birr 2.5 billion (22.7 percent) and Birr 1.7 billion (15.7 percent) and 1.5 billion (13.5 percent), respectively. On year-on-year basis, loans extended to the agriculture sector, domestic trade services, export sub-sector and manufacturing activities went down by 28.8 percent, 33.9 percent, 62.4 percent and 22.5 percent, respectively, compared with last year's corresponding level. On the other hand, loans disbursed to financing building and construction raised remarkably to Birr 1.5 billion, from Birr 959.5 million in 2007/08, that is a surge by 55.7 percent.

## Trends in Loans Disbursement, by Sector (in millions Birr)

	2008/09		2007/08	Year-on-Year % Change
	Amount	% Composition	Amount	
Agriculture	2,516	22.7	3,534	(28.8)
Manufacturing	711	6.4	918	(22.5)
Domestic trade	1,746	15.7	2,643	(33.9)
Export	368	3.3	976	(62.4)
Import	3,403	30.7	4,440	(23.3)
Building and Construction	1,494	13.5	960	55.6
Personal	74	0.7	105	(29.5)
Disbursement to Banks	104.0	0.9	-	-
Mortgage loan	676.0	6.1	-	-
Total loans disbursement	11,092	100.0	13,575	(18.3)

\*Excluding Investment in Government Securities and Bonds and Bonds and Placement with Other Banks.





ADDIS ABABA HOUSING DEVELOPMENT PROJECT

Total loan collection stood at Birr 9.3 billion in 2008/09, from Birr 7.1 billion a year ago (i.e., up by 30.8 percent). Loans collection from the building and construction sector, import sub-sector and from banks increased by 389 percent, 69 percent and 36.3 percent respectively, and they represented as major contributors to such good performance. On the other hand, loans collection from the export sub-sector, the agriculture sector and personal loans fell by 24.6 percent, 13.8 percent and 2.4 percent, respectively, compared with their preceding year's status.

#### Trends in Loans Collection, by Sector (in millions Birr)

Particulars	2008/09		2007/08	Year-on-Year % Change
	Amount	% Composition	Amount	
Collection from Customers	9202.5	98.6	7076.29	30.0
Agriculture	2200.6	23.6	2553.0	(13.8)
Manufacturing	554.3	5.9	428.4	29.4
Domestic trade	1981.1	21.2	1554.8	27.4
Export	567.6	6.1	753.1	(24.6)
Import	2409.8	25.8	1425.5	69.0
Building and Construction	1419.8	15.2	290.4	388.9
Personal	69.3	0.7	71.0	(2.4)
Other projects	-	-	-	-
Collection from banks	80.5	0.9	59.04	36.3
Mortgage loans	53.4	0.6	-	-
Total loans collection	9336.4	100.0	7135.3	30.8



AL-HABESHA SUGAR MILLS

Accordingly, the ratio of loans-collection-to-loans-disbursement slightly increased to 84.2 percent, from 52.6 percent in 2007/08, testifying the fact that all the concerned staff paid the required effort towards the timely collection of loans. Accordingly, the Bank's stock of non-performing loans reduced remarkably during the year, which is one of the major achievements of the Bank during this period.

**Liabilities:** The total liabilities of the Bank for the review period was Birr 39.2 billion, up by Birr 8.6 billion (18.7percent growth), from the preceding year 2007/08. The continual growth of customers' deposits and deposits due to other banks were major contributors to the growth. Customers' deposits stood at Birr 42.3 billion, while deposits due to other banks went up to Birr 1.2 billion in 2008/09, from their last year's levels of Birr 36.5 billion and Birr 0.5 billion, respectively.

Mobilized deposits remain the Bank's major source of funding. A relatively large branch network and the public confidence it has won over the years and the favorable business environment has continued the Bank to command a large deposit base. During the period considered, the Bank posted a total deposit of Birr 43.5 billion, claiming a growth of 17.5 percent, compared with that of last year's level. This was attributed, to the steady growth in both demand and savings deposits by 17.3 percent and 17 percent, respectively.

Demand deposits increased by 17.3 percent, compared with the preceding year. Similarly, savings deposits grew by 17 percent, to reach Birr 17.8 billion, fixed time deposits also continued to increase in the reporting year and amounted to Birr 521 million. Accordingly, the share of demand deposits stood at 58percent, almost the same as its last year's level of 58.1 percent, which enabled the Bank to minimize interest expenses as well.



Deposit status exhibited such growth performance, in spite of the prevailing aggressive branch expansion and customer attraction policy of competitor banks and the galloping inflation (that makes real deposit rate negative). In the coming fiscal year, the Bank will encourage even higher levels of deposits by employing various deposit mobilization scheme including branch opening.

**Deposit at Year-End** (In millions Birr)

Particulars	2008/09	2007/08	Year-on-Year % Change
Total deposits	43,489	37,001	17.5
Demand deposits	25,207	21,483	17.3
Savings deposits	17,761	15,185	17
Fixed time deposits	521	333	56.5

**Capital Adequacy:** The capital and reserves of the Bank stood at Birr 5 billion in 2008-09, indicating a 9.6 percent growth, over the preceding year's position of Birr 4.6 billion. This was attributable to a significant increase in the reserve position of the bank by about 86.3 percent in the fiscal year considered. However, the Bank's paid up capital remained constant Birr 4 billion as in the fiscal year 2007-08. As a result, the risk weighted capital adequacy ratio of the Bank as at June 2009 reached 14.6 percent, which is in excess of the required ratio of 8 percent as per the directives of the National Bank of Ethiopia, further indicating that the bank's loan portfolio is inclining towards risk free investments but the ratio declined by 3.1 percent compared with the preceding fiscal year. The bank's capital-asset ratio somehow shrunk from 9.2 percent in 2007/08 to 8.4 percent in 2008/09, further reflecting the Bank's sound financial strength.

The notable rise in the paid-up capital of the Bank will, of course, have wide-ranging effect on its operational performance and international image in the years to come. Primarily, it will enable the Bank to easily absorb unexpected losses and meet its obligations when deemed to do so. Secondly, it will have the effect of bolstering and maintaining the confidence and trust of foreign banks and its customers, for by virtue of raising its capital, the Bank becomes stronger than ever before to mitigate and bear risks. Finally, the Bank's single borrowing limit will grow. This will have a repercussion on increasing the volume of loans hence mopping up the excess liquid funds.

**Capital Adequacy Ratio**

Particular	2008/09	2007/08
Capital Adequacy:		
Paid-up capital ('000 Birr)	4,000,000	4,000,000
Reserves ('000 Birr)	1,036,577	556,267
Retained earnings('000 Birr)	4,242	4,242
Capital adequacy ratio	14.6	17.7
Capital-to-total-assets ratio	8.4	9.1

**Foreign Banking Operations:** The CBE maintains good business relationships and correspondent account relations with various well-known international banks throughout the globe. It maintains a SWIFT bilateral key exchange arrangement with 520 banks of international renown. Being one of the strengths and core competences of the Bank, this enables it to benefit from global business developments. A good deal of the Bank's revenue, and hence profit, is generated from the international banking activities.

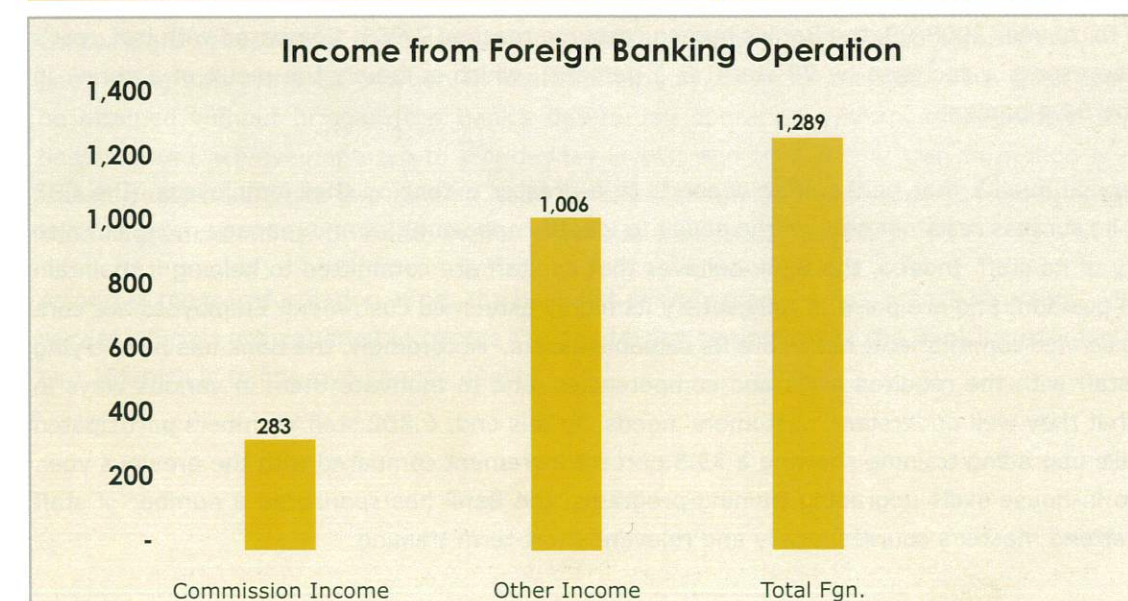
During the review period, the income obtained from foreign banking operations surged by 60 percent and stood at Birr 1.3 billion, accounting for 33.5 percent of the total income of the Bank. The International Banking Department alone claims about 82 percent (i.e., about Birr 1.1 billion) of the total income generated from foreign banking activities. The component of commission income took the lion's share, fetching 78 percent of the total foreign income, while the share of other income is 22 percent in the review period.

During the period under review, the import letters of credit opened and settled reached 3,200 and 3,704 with a corresponding value of Birr 17.7 billion and Birr 12.5 billion respectively, which shrunk considerably in terms of number. However, in terms of value a remarkable growth was achieved compared with the preceding year. The number of IBC (import documentary collections) documents received during the reporting period stood at 3,251 with the corresponding value of Birr 1.7 billion, reflecting a reduction, respectively, of 45 and 36.5 percent, over the preceding year whereas the number and value of IBC documents settled were 3,220 and Birr 1.6 billion, respectively, suggesting a 38 percent and 43 percent growth, relative to the previous year's level.

On the other hand, a total of 1,431 export letters of credit were received with an aggregated value of Birr 2.7 billion, which in fiscal year 2007/08 were totaled 565 with a corresponding value of Birr 3.8 billion, registering a growth of 153 percent in terms of number and 29 percent reduction in value. Export documents negotiated on collection revealed a sharp decline in terms of number; however, it showed a 46.7 percent increase in value terms. During the period considered, export documents negotiated at sight increased both in number and value terms indicating a 14 percent and 33.2 percent growth. Similarly, 4,381 foreign guarantees worth of Birr 9.1 billion were issued in fiscal year 2008/09, while those guarantees settled during the reporting period stood at 3,637 for about Birr 4.3 billion, showing a steady rise over the previous year's performance in this regard.

**Selected Performance indices of the Foreign Banking Operations (in millions Birr)**

Particulars	2008/09		2007/08		Year-on-Year % Change	
	No.	value	No.	value	No.	Value
Import L/C opened	3200	17,666.0	4394	13,528.0	-27.2	30.6
Import L/C settled	3704	12,458.3	5807	10,214.5	-36.2	22.0
Export L/C received	1431	2,719.2	565	3,816.1	153.3	-28.7
Export Doc. negotiated on collection	725	798.4	2090	544.2	-65.3	46.7
Export L/C negotiated at sight	2272	3,312.4	1994	2,487.3	13.9	33.2
IBC-received	3251	1,677.4	5880	2,643.3	-44.7	-36.5
IBC-settled	3220	1,659.6	5167	2,902.6	-37.7	-42.8
Guarantees issued	4381	9148	3182	5,801.3	37.7	57.7
Guarantees settled	3637	4339	3595	4,345.6	1.2	-0.2
Total	25,821	53,778	32674	46,282.9	-21.0	16.2





## Guna's Major Products



The CBE is a reliable choice in terms of financing the bulk of the country's import and export trade as well as domestic trade through its widely scattered branch offices.

## HUMAN RESOURCE ACTIVITIES

At the end of fiscal year 2008/09, the Bank's human resource reached 7,955. Compared with last year's figure, this represents a decrease by 78 staff (or 1 percent), which is mainly the result of a shrink in recruitment by 54.4 percent.

Generally, service quality that banks offer depends to a greater extent on their employees. The CBE believes that its success rests not only on the ability to identify opportunities and manage risks, but also on the quality of its staff. Indeed, the Bank believes that its staff are committed to helping it maintain its leadership position, and are poised to fully satisfy its highly esteemed customers. Employees are core to the Bank's service commitment, hence are its valuable assets. Accordingly, the Bank has been trying to equip all staff with the required skills and competencies, and to motivate them in various ways in such a way that they well understand customers' needs. To this end, 6,862 staff members participated in various skills upgrading training showing a 33.5 percent increment compared with the previous year. In addition to in-house skills upgrading training programs, the Bank has sponsored a number of staff members to attend master's courses locally and relevant short-term training.

The Bank is committed to satisfy its employees not only by fostering a pleasant and conducive work place but also egging on them with attaching attractive benefit packages to each post.

Through the Bank's newsletter prepared by the Corporate Communications Sub-process, employees are regularly updated on new events, quarter and annual meeting resolutions, and share ideas in various issues, including financial, economic, social and legal matters. The newsletter also serves as an instrument in which service delivery improvement and other business issues are discussed, which would ultimately have a positive effect on stirring the dedication of the staff towards delivering optimum customer satisfaction. This entails the Bank's Management commitment to encourage two-way communications and employees' participation in the decision-making process. The CBE is the right domicile for professionals who look to develop in an environment in which they will have key responsibilities to play.

## BUSINESS DEVELOPMENT HIGHLIGHTS

The Bank has exercised massive transformation effort, which is believed to enable it leap into a better position, in terms of enhancing the efficiency and quality of service delivery, and hence achieving its vision of becoming a "world-class" commercial bank in the fast changing environment. In the era of stiff competition, improving service quality is known to be a prime strategy for winning the competition and retaining customers.

It is evident that the fiscal year under review was a remarkable year in that the CBE has managed to implement the BPR recommendations in both its core and support business processes as planned.

To secure smooth implementation of the transformation endeavor, the Bank has made efforts in the form of awareness creation, training and facilitation of the required human and material resources.

Though the Bank has successfully implemented the BPR recommendations, it had to withstand challenges. The CBE faced various challenges ranging from staff resistance to customer dissatisfaction in the early stages of implementation of the core processes in particular. However, most of the challenges have been mitigated in due time through continued awareness creation and the fading away of in time inconveniences.

The transformation endeavor reflects the Bank's strong commitment not only to efficiently deliver existing products to various market segments but also to explore new and niche businesses. It is a concomitant reflection of the Bank's vision, which is meant to retain customers and attract potential ones while improving its position in the international financial market. This goal cannot of course be attained without bringing the Bank's day-to-day operating system, management style, customer handling and achievements up to world-class levels; and that is why transformation is required. The transformation initiative is a helping hand for the Management to realize its fundamental principles of becoming performance-oriented, market-driven and customer-oriented.

As part of the transformation effort, the Bank has already placed a new branch structure, where customer service officials are assigned to handle the day-to-day complaints of the Bank's customers, the ultimate aim of which is to improve service quality.



Auditors' Report  
2008/09





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AUDIT SERVICES CORPORATION

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INDEPENDENT AUDITORS' REPORT ON THE  
FINANCIAL STATEMENTS OF  
COMMERCIAL BANK OF ETHIOPIA

We have audited the financial statements of Commercial Bank of Ethiopia and of the Group set out on pages 2 to 38 which have been prepared under the historical cost convention, and the accounting policies set out on pages 9 to 11. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an independent opinion on the financial statements based on our audit.

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

In our opinion, the financial statements present fairly the financial positions of Commercial Bank of Ethiopia and of the Group at 30 June 2009 and the results of its operations and cash flows of the Bank and of the Group for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

*Audit Services Corporation*

4 November 2009

COMMERCIAL BANK OF ETHIOPIA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2009

	Notes	Birr	2008 Birr
<b>ASSETS</b>			
Cash and balances with National Bank of Ethiopia	2	8,758,841,743	9,860,908,282
Investments in Government securities	3	5,410,003,882	6,518,502,714
Coupon bonds with Development Bank of Ethiopia and regional states	4	8,029,981,487	4,756,806,075
Term bonds	5	11,800,000,000	8,600,000,000
Placements with other banks	6	1,450,059,940	1,465,221,078
Loans and advances to banks	7	434,066,266	180,414,140
Loans and advances to customers	8(a)	18,298,711,183	16,094,699,102
Other advances	9	1,523,923,415	-
Investment in associates	1b(ii), 11(a)	2,905,058	2,905,058
Other investments	12	2,768,051	2,768,051
Other assets	13	3,332,222,745	2,584,966,089
Property and equipment		392,705,902	300,497,591
		<u>59,436,189,672</u>	<u>50,367,688,180</u>
<b>LIABILITIES</b>			
Deposits due to other banks	15	1,171,767,848	478,830,674
Customers' deposits	16	42,308,586,490	36,522,161,945
Taxation	17	786,071,432	503,440,955
State dividend payable	18	1,951,523,552	1,020,893,667
Other liabilities	19	8,149,589,632	7,262,615,209
		<u>54,367,538,954</u>	<u>45,787,942,450</u>
NET ASSETS		<u>5,068,650,718</u>	<u>4,579,745,730</u>
MINORITY INTEREST		1,225,275	1,028,214
<b>CAPITAL AND RESERVES</b>			
Capital	20	4,000,000,000	4,000,000,000
Legal reserve	21	1,037,560,542	557,110,956
Retained earnings		15,772,770	13,112,703
		<u>5,053,333,312</u>	<u>4,570,223,659</u>
DEFERRED TAX LIABILITY	1f, 22	14,092,131	8,493,857
		<u>5,068,650,718</u>	<u>4,579,745,730</u>

Vice President Finance

Addis Ababa, 4 November 2009



President

The notes on pages 34 to 57 form an integral part of these financial statements.





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INDEPENDENT AUDITORS' REPORT ON THE  
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We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly the financial positions of Commercial Bank of Ethiopia and of the Group at 30 June 2009 and the results of its operations and cash flows of the Bank and of the Group for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

*Audit Services Corporation*

4 November 2009

COMMERCIAL BANK OF ETHIOPIA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2009

	Notes	Birr	2008 Birr
<b>ASSETS</b>			
Cash and balances with National Bank of Ethiopia	2	8,758,841,743	9,860,908,282
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Term bonds	5	11,800,000,000	8,600,000,000
Placements with other banks	6	1,450,059,940	1,465,221,078
Loans and advances to banks	7	434,066,266	180,414,140
Loans and advances to customers	8(a)	18,298,711,183	16,094,699,102
Other advances	9	1,523,923,415	-
Investment in associates	1b(ii), 11(a)	2,905,058	2,905,058
Other investments	12	2,768,051	2,768,051
Other assets	13	3,332,222,745	2,584,966,089
Property and equipment		392,705,902	300,497,591
		<u>59,436,189,672</u>	<u>50,367,688,180</u>
<b>LIABILITIES</b>			
Deposits due to other banks	15	1,171,767,848	478,830,674
Customers' deposits	16	42,308,586,490	36,522,161,945
Taxation	17	786,071,432	503,440,955
State dividend payable	18	1,951,523,552	1,020,893,667
Other liabilities	19	8,149,589,632	7,262,615,209
		<u>54,367,538,954</u>	<u>45,787,942,450</u>
NET ASSETS		<u>5,068,650,718</u>	<u>4,579,745,730</u>
MINORITY INTEREST		1,225,275	1,028,214
<b>CAPITAL AND RESERVES</b>			
Capital	20	4,000,000,000	4,000,000,000
Legal reserve	21	1,037,560,542	557,110,956
Retained earnings		15,772,770	13,112,703
		<u>5,053,333,312</u>	<u>4,570,223,659</u>
DEFERRED TAX LIABILITY	1f, 22	14,092,131	8,493,857
		<u>5,068,650,718</u>	<u>4,579,745,730</u>

Vice President Finance

Addis Ababa, 4 November 2009



President

The notes on pages 34 to 57 form an integral part of these financial statements.



**COMMERCIAL BANK OF ETHIOPIA  
BANK STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2009**

	Notes	Birr	2008 Birr
<b>ASSETS</b>			
Cash and balances with National Bank of Ethiopia	2	8,758,838,843	9,860,907,382
Investments in Government securities	3	5,410,003,882	6,518,502,714
Coupon bonds with Development Bank of Ethiopia and regional states	4	8,029,981,487	4,756,806,075
Term bonds	5	11,800,000,000	8,600,000,000
Placements with other banks	6	1,450,059,940	1,465,221,078
Loans and advances to banks	7	434,066,266	180,414,140
Loans and advances to customers	8(a)	18,298,711,183	16,094,699,102
Other advances	9	1,523,923,415	-
Investment in subsidiary	10	4,220,000	4,220,000
Investment in associates	1b(ii),11(b)	1,050,000	1,050,000
Other investments	12	2,768,051	2,768,051
Other assets	13	3,307,084,560	2,559,882,606
Property and equipment	14	391,011,620	299,002,523
		<u>59,411,719,247</u>	<u>50,343,473,671</u>
<b>LIABILITIES</b>			
Deposits due to other banks	15	1,171,767,848	478,830,674
Customers' deposits	16	42,317,642,690	36,527,796,190
Taxation	17	784,887,282	502,643,363
State dividend payable	18	1,951,523,552	1,020,893,667
Other liabilities	19	8,131,095,369	7,244,404,141
		<u>54,356,916,741</u>	<u>45,774,568,035</u>
NET ASSETS		<u>5,054,802,506</u>	<u>4,568,905,636</u>
<b>CAPITAL AND RESERVES</b>			
Capital	20	4,000,000,000	4,000,000,000
Legal reserve	21	1,036,576,508	556,266,926
Retained earnings		<u>4,241,827</u>	<u>4,241,827</u>
		5,040,818,335	4,560,508,753
DEFERRED TAX LIABILITY	1f,22	<u>13,984,171</u>	<u>8,396,883</u>
		<u>5,054,802,506</u>	<u>4,568,905,636</u>

The notes on pages 34 to 57 form an integral part of these financial statements.

**COMMERCIAL BANK OF ETHIOPIA  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2009**

	Notes	CBE Birr	CN Birr	Total Birr	2008 Birr
INTEREST INCOME	1e,23	2,357,840,152	39,015	2,357,879,167	1,541,154,077
INTEREST EXPENSE	24	<u>(614,089,057)</u>	-	<u>(614,089,057)</u>	<u>(533,886,462)</u>
NET INTEREST INCOME		<u>1,743,751,095</u>	<u>39,015</u>	<u>1,743,790,110</u>	<u>1,007,267,615</u>
IMPAIRMENT LOSSES ON:-					
LOANS AND ADVANCES		-	-	-	(4,249,409)
SUNDRY DEBTORS		(5,016,872)	-	(5,016,872)	(2,957,926)
AQUIRED PROPERTY		<u>(2,865,811)</u>	-	<u>(2,865,811)</u>	<u>(4,584,776)</u>
		<u>(7,882,683)</u>	-	<u>(7,882,683)</u>	<u>(11,792,111)</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON LOANS AND ADVANCES, SUNDRY DEBTORS AND ACQUIRED PROPERTY		1,735,868,412	39,015	1,735,907,427	995,475,504
NON INTEREST INCOME	1e, 25	1,489,692,034	12,072,474	1,501,764,508	1,430,306,137
NON INTEREST EXPENSES	26	<u>(509,826,595)</u>	<u>(7,820,275)</u>	<u>(517,646,870)</u>	<u>(556,058,277)</u>
PROFIT BEFORE TAX		2,715,733,851	4,291,214	2,720,025,065	1,869,723,364
INCOME TAX EXPENSE	27	<u>(794,495,520)</u>	<u>(1,294,083)</u>	<u>(795,789,603)</u>	<u>(507,158,810)</u>
PROFIT AFTER TAX		1,921,238,331	2,997,131	1,924,235,462	1,362,564,554
MINORITY INTEREST		-	<u>(197,061)</u>	<u>(197,061)</u>	<u>(135,069)</u>
PROFIT FOR THE YEAR		<u>1,921,238,331</u>	<u>2,800,070</u>	<u>1,924,038,401</u>	<u>1,362,429,485</u>

The notes on pages 34 to 57 form an integral part of these financial statements.



**COMMERCIAL BANK OF ETHIOPIA  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2009**

	Capital Birr	Legal reserve Birr	Retained earnings Birr	Total equity Birr
Balance at 30 June 2007	4,000,000,000	216,905,772	11,271,112	4,228,176,884
Net profit for the year	-	-	1,362,429,485	1,362,429,485
Transfer to legal reserve	-	340,205,184	(340,205,184)	-
Transfer to state dividend	-	-	(1,020,382,710)	(1,020,382,710)
Balance at 30 June 2008	4,000,000,000	557,110,956	13,112,703	4,570,223,659
Net profit for the year	-	-	1,924,038,401	1,924,038,401
Transfer to legal reserve	-	480,449,586	(480,449,586)	-
Transfer to state dividend	-	-	(1,440,928,748)	(1,440,928,748)
Balance at 30 June 2009	4,000,000,000	1,037,560,542	15,772,770	5,053,333,312

The notes on pages 34 to 57 form an integral part of these financial statements.

**COMMERCIAL BANK OF ETHIOPIA  
BANK STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2009**

	Capital Birr	Legal reserve Birr	Retained earning Birr	Total sequity Birr
Balance at 30 June 2007	4,000,000,000	216,139,356	4,241,827	4,220,381,183
Net profit for the year	-	-	1,360,510,280	1,360,510,280
Transfer to legal reserve	-	340,127,570	(340,127,570)	-
Transfer to state dividend	-	-	(1,020,382,710)	(1,020,382,710)
Balance at 30 June 2008	4,000,000,000	556,266,926	4,241,827	4,560,508,753
Net profit for the year	-	-	1,921,238,330	1,921,238,330
Transfer to legal reserve	-	480,309,582	(480,309,582)	-
Transfer to state dividend	-	-	(1,440,928,748)	(1,440,928,748)
Balance at 30 June 2009	4,000,000,000	1,036,576,508	4,241,827	5,040,818,335

The notes on pages 34 to 57 form an integral part of these financial statements.

**COMMERCIAL BANK OF ETHIOPIA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2009**

	Notes	Birr	Birr	2008 Birr
Cash outflow from operating activities	28(a)		(2,334,724,502)	(11,517,545,124)
Cash flow from investing activities				
Purchase of property and equipment		(133,020,293)		(92,786,538)
Proceeds on disposal of property and equipment		2,169,520		56,070
Dividends received		-		67,768
Net cash outflow from investing activities			(130,850,773)	(92,662,700)
Cash flow from financing activities				
Dividends paid to Ministry of Finance and Economic Development			(510,298,863)	(647,907,114)
Decrease in cash and cash equivalents	28(b)		(2,975,874,138)	(12,258,114,938)
Cash and cash equivalents at 30 June 2008	28(b)		5,244,090,120	17,502,205,058
Cash and cash equivalents at 30 June 2009	28(b)		2,268,215,982	5,244,090,120

The notes on pages 34 to 57 form an integral part of these financial statements.

**COMMERCIAL BANK OF ETHIOPIA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2009**

	Notes	Birr	Birr	2008 Birr
Cash outflow from operating activities	29(a)		(2,335,253,271)	(11,518,249,630)
Cash flow from investing activities				
Purchase of property and equipment		(132,493,524)		(92,081,532)
Proceeds on disposal of property and equipment		2,169,520		56,070
Dividend received		-		67,768
Net cash outflow from investing activities			(130,324,004)	(91,957,694)
Cash flow from financing activities				
Dividends paid to Ministry of Finance and Economic Development			(510,298,863)	(647,907,114)
Decrease in cash and equivalents	29(b)		(2,975,876,138)	(12,258,114,438)
Cash and cash equivalents at 30 June 2008	29(b)		5,244,089,220	17,502,203,658
Cash and cash equivalents at 30 June 2009	29(b)		2,268,213,082	5,244,089,220

The notes on pages 34 to 57 form an integral part of these financial statements.



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2009**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The following are the major accounting policies adopted by the Bank. These policies are consistent with those applied in the preceding year.

**a) Basis of preparation**

- I. These financial statements have been prepared in compliance with International Financial Reporting Standards. They are prepared under the historical cost convention.
- II. All amounts in the financial statements are expressed in Birr.

**b) Consolidation principles**

- I. **Subsidiary**  
Subsidiaries are enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain economic benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

The consolidated financial statements incorporate the financial statements of the Bank and of its subsidiary for the year ended 30 June 2009. The subsidiary is shown in note 10.

All inter-company balances and transactions are eliminated on consolidation.

- II. **Associates**  
Associates are enterprises in which the Bank has significant influence, and are neither subsidiaries nor joint ventures. The Bank's investment in associates is accounted for in the consolidated financial statements using the equity method. The Bank's associates are shown in note 11.

**c) Valuation of assets and liabilities**

- I. Assets and liabilities denominated in foreign currencies are translated into Birr at the exchange rates ruling at the balance sheet date.
- II. All major financial assets are measured at fair value.

**III. Impairment losses on loans and advances**

Loans and advances are shown at the gross amount adjusted for any provision for impairment losses. A provision for loan impairment is established if 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. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

In addition, a general provision is made based on management's assessment of the inherent risk in the loans and advances portfolio.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the income statement.

**IV. Property and equipment**

Buildings, fixtures, fittings and office equipment, motor vehicles, computers, accessories and software are stated at cost less accumulated depreciation and impairment losses.

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets.

	<u>%</u>
Buildings	5
Fixtures, fittings and office equipment	10
Motor vehicles	20
Computers and accessories	10
Computer software	20

Gains and losses on disposal of property and equipment are determined by comparing the proceeds on disposal and the carrying amount of the respective item and are taken into account in determining operating profit.

**v. Stocks**

Stocks are stated at cost less any provision for impairment.

**d) Recognition of financial assets and financial liabilities.**

The Bank recognizes a financial asset or a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when, and only when, the control over the contractual rights is lost. A financial liability is derecognized when, and only when, it is extinguished.

**e) Income recognition**

Income is recognized in the period in which it is earned. When a lending account becomes non-performing, interest is suspended and excluded from income until it is received. However, it is computed and shown in the memorandum account.

**f) Deferred income tax**

Deferred tax is provided, using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

**g) Employee benefits**

Bank employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contribution plan are charged to the income statement as incurred.

**h) Trust Funds**

The Bank and its subsidiary act as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Assets held in trust are not included in the balance sheet of the Bank and its subsidiary.

**i) Abbreviations**

CBE stands for Commercial Bank of Ethiopia while CN stands for Commercial Nominees Private Limited Company.



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**2. CASH AND BALANCES WITH NATIONAL BANK OF ETHIOPIA**

	Birr	2008 Birr
<b>Group</b>		
Cash on hand	1,011,212,620	988,495,492
Balances with National Bank of Ethiopia		
- Cash reserve ratio	6,950,000,000	6,000,000,000
- Payment and settlement account	<u>797,629,123</u>	<u>2,872,412,790</u>
	<u>8,758,841,743</u>	<u>9,860,908,282</u>
<b>Company</b>		
Cash on hand	1,011,209,720	988,494,592
Balances with National Bank of Ethiopia		
- Cash reserve ratio	6,950,000,000	6,000,000,000
- Payment and settlement account	<u>797,629,123</u>	<u>2,872,412,790</u>
	<u>8,758,838,843</u>	<u>9,860,907,382</u>

The cash reserve ratio is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2009, the cash reserve requirement was 15% of the eligible deposits. These funds are not available to finance the Bank's day-to-day operations.

**3. INVESTMENTS IN GOVERNMENT SECURITIES**

	Birr	2008 Birr
<b>Group and Company</b>		
Treasury bills		
Maturing within 90 days	-	264,995,632
Maturing after 90 days	<u>1,667,733,538</u>	<u>2,338,806,769</u>
	<u>1,667,733,538</u>	<u>2,603,802,401</u>
Government bonds		
Maturing within 90 days	272,207,350	274,067,832
Maturing after 90 days and within one year	163,280,777	117,315,603
Maturing after one year	3,056,782,217	3,523,316,878
Overdue	<u>250,000,000</u>	-
	<u>3,742,270,344</u>	<u>3,914,700,313</u>
	<u>5,410,003,882</u>	<u>6,518,502,714</u>

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**4. COUPON BONDS WITH DEVELOPMENT BANK OF ETHIOPIA AND REGIONAL STATES**

**Group and Company**

Represent non-negotiable 4% secured bonds bought from Development Bank of Ethiopia (DBE). Interest is to be repaid by DBE semi-annually while the principal is to be repaid in annual instalments through 31 December 2013. The Bank has also bought non-negotiable 5% secured bonds from six regional states. Interest is to be repaid semi-annually while the principal is to be repaid in annual instalments for 10 years from date of issuance. Both interest and principal have one year grace period.

	Birr	2008 Birr
<b>Development Bank of Ethiopia</b>		
Overdue	190,863,553	72,169,119
Maturing within 90 days	13,011,387	6,641,609
Maturing after 90 days and within one year	132,617,030	123,571,429
Maturing after one year	<u>1,494,765,940</u>	<u>1,329,285,714</u>
	1,831,257,910	1,531,667,871
<b>Coupon bonds with regional states</b>		
Maturing after one year	<u>6,198,723,577</u>	<u>3,225,138,204</u>
	<u>8,029,981,487</u>	<u>4,756,806,075</u>

**5. TERM BONDS**

**Group and Company**

Represent non-negotiable 5% secured bonds worth Birr 11,800,000,000 bought from Ethiopian Electric Power Corporation. Interest is to be repaid semi-annually while the principal is to be repaid in lump sum after five years.

**6. PLACEMENTS WITH OTHER BANKS**

	Birr	2008 Birr
<b>Group and Company</b>		
Due within 90 days	<u>1,450,059,940</u>	<u>1,465,221,07</u>



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**7. LOANS AND ADVANCES TO BANKS**

	Birr	2008 Birr
<b>Group and Company</b>		
Construction and Business Bank Share Company	20,773,903	26,426,958
Development Bank of Ethiopia	135,149,816	153,987,182
Micro Financial Institutions	<u>278,142,547</u>	<u>-</u>
	<u>434,066,266</u>	<u>180,414,140</u>

**8. LOANS AND ADVANCES TO CUSTOMERS**

	Birr	2008 Birr
<b>Group and Company</b>		
<b>a) Term and merchandise loans</b>		
Overdrafts	16,501,438,314	13,116,204,192
Advances on import and export bills	1,285,616,264	3,084,921,730
Loans and advances in legal	788,025,196	264,986,548
	<u>372,994,776</u>	<u>695,961,003</u>
	18,948,074,550	17,162,073,473
Less: Provision for impairment losses	<u>(649,363,367)</u>	<u>(1,067,374,371)</u>
	<u>18,298,711,183</u>	<u>16,094,699,102</u>
Repayable on demand	<u>1,567,924,613</u>	<u>3,078,939,580</u>
Within one year	9,639,005,766	5,753,429,776
One to five years	3,509,402,511	4,624,329,036
Over five years	<u>3,582,378,293</u>	<u>2,638,000,710</u>
	<u>18,298,711,183</u>	<u>16,094,699,102</u>

**b) Movement in provision for impairment losses**

	Birr	2008 Birr
At 30 June 2008	1,067,374,371	1,388,553,279
Current year provision	-	4,249,409
Amounts written off during the year	<u>(418,011,004)</u>	<u>(325,428,317)</u>
At 30 June 2009	<u>649,363,367</u>	<u>1,067,374,371</u>

**c) Type of loans and advances**

	Birr	2008 Birr
Agriculture	3,173,545,159	2,737,525,827
Manufacturing	2,338,550,496	2,053,074,895
Domestic trade and services	3,527,626,983	3,802,028,504
Foreign trade	7,891,377,500	7,378,420,692
Building and construction	1,896,884,635	1,094,430,668
Personal loans	<u>120,089,777</u>	<u>96,592,887</u>
	<u>18,948,074,550</u>	<u>17,162,073,473</u>

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**d) Interest on non performing loans and advances**

In accordance with guidelines issued by the National Bank of Ethiopia, when an account becomes non-performing, interest is not recognized. Such interest is held in a memorandum account off the balance sheet. As at 30 June 2009 such interest amounted to Birr 1,093,536,223 (2008 : Birr 1,643,988,091).

**9. OTHER ADVANCES**

**a) These are made of the following:-**

Ethiopian Grain Trade Enterprise (EGTE)  
Addis Ababa City Government

Birr
1,462,609,658
<u>61,313,757</u>
<u>1,523,923,415</u>

**b) The advance held in the name of EGTE represents zero margin letter of credit opened in the name of EGTE for import of wheat on behalf of the Ethiopian Government.**

As per the letter from the Ministry of Finance and Economic Development (MoFED), the repayment of the advance will be effected by MoFED upon arrival of the imported wheat;

**c) The advance to the Addis Ababa City Government was given for the construction of condominiums.**

The said advance was fully settled subsequently from the collection of down payment from the owners of the condominiums.

**10. INVESTMENT IN SUBSIDIARY**

	Birr	2008 Birr
Commercial Nominees Private Limited Company	93.425%	<u>4,220,000</u>
		<u>4,220,000</u>

The interest in the above undertaking is carried at cost. The subsidiary company is incorporated in Ethiopia.

**11. INVESTMENT IN ASSOCIATES**

**a) Group**

	Birr	2008 Birr
Specialized Financial and Promotional Institution	49.875%	2,120,021
Universal Investors Company	32.35%	<u>785,037</u>
		<u>2,905,058</u>
		<u>2,905,058</u>

The interest in the above undertakings represent the Group's share of the net assets of the associated companies, under the equity method, in accordance with IAS 28. The associates are incorporated in Ethiopia.



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**b) Company**

		Birr	2008 Birr
Specialized Financial and Promotional Institution	49.875%	200,000	200,000
Universal Investors Company	32.35%	850,000	850,000
		<u>1,050,000</u>	<u>1,050,000</u>

The interests in the above undertakings are carried at cost. The associates are incorporated in Ethiopia.

**12. INVESTMENTS**

	Birr	2008 Birr
Group and Company		
Unquoted equity investments		
African Export Import Bank	2,438,000	2,438,000
Gelately Hankey and Company	85,937	85,937
SWIFT Company	<u>244,114</u>	<u>244,114</u>
	<u>2,768,051</u>	<u>2,768,051</u>

**13. OTHER ASSETS**

Group	Birr	2008 Birr
Balance due from Commercial Bank of Eritrea	1,188,777,247	1,148,022,450
Uncleared effects	1,286,883,198	695,647,999
Interest receivable	203,140,242	118,596,984
Acquired properties	334,391,796	384,337,422
Stationery and other supplies	50,436,734	51,084,186
Staff imprests and prepayments	44,694,412	47,087,633
Other receivables	190,237,003	167,199,691
Ethiopian Millennium comemorable silver and gold coins	2,397,600	2,529,700
Investment in CBE Southern Sudan Limited	<u>64,216,712</u>	-
	3,365,174,944	2,614,506,065
Less: Provision for doubtful debts	<u>32,952,199</u>	<u>29,539,976</u>
	<u>3,332,222,745</u>	<u>2,584,966,089</u>
 Company		
Balance due from Commercial Bank of Eritrea (ii-below)	1,188,777,247	1,148,022,450
Uncleared effects	1,286,883,198	695,647,999
Interest receivable	203,140,242	118,596,984
Acquired properties (i-below)	334,391,796	384,337,422
Stationery and other supplies	50,381,555	51,029,056
Staff imprests and prepayments	25,935,801	27,957,671
Other receivables	183,912,608	161,301,300
Ethiopian Millennium comemorable silver and gold coins	2,397,600	2,529,700
Investment in CBE Southern Sudan Limited (iii-below)	<u>64,216,712</u>	-
	3,340,036,759	2,589,422,582
Less: Provision for doubtful debts	<u>32,952,199</u>	<u>29,539,976</u>
	<u>3,307,084,560</u>	<u>2,559,882,606</u>

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

I. Acquired properties represent properties that have been pledged as collateral, which have been acquired by the Bank in accordance with Ethiopian Law. Such properties are held with a view to disposal, subject to the set reserve price.

II. The Government of Ethiopia has guaranteed the repayment of the balance due from Commercial Bank of Eritrea if this amount will not have been settled by 28 June 2006. The guaranteed amount is Birr 1,230,978,839. However, the guarantee period has been extended to June 2010 based on the letter of the Ministry of Finance and Economic Development dated 26 Megabit 2000 (4 April 2008), ref. 100-02-00/34.

III. Commercial Bank of Ethiopia opened a fully owned subsidiary in the name of CBE Southern Sudan Limited-Juba Branch in the capital city of South Sudan with a total capital of USD 15,000,000 out of which USD 5,000,000 had been paid up until 30 June 2009 while the remaining USD 10,000,000 is to be fully paid up within two years time. As the subsidiary became operational towards the end of the fiscal year on 22 June 2009, the partial paid up capital and other preoperational costs totaling Birr 64,216,712 had been temporarily shown under other assets to be eventually transferred to the respective investment account.

**14. PROPERTY AND EQUIPMENT**

a) The movements in property and equipment are as follows:-

	Balance at 30 June 2008 Birr	Additions Birr	Disposals/ Transfers/ Adjustments Birr	Balance at 30 June 2009 Birr
Group				
COST				
Buildings	283,511,298	-	3,237,186	286,748,484
Motor vehicles	105,607,139	73,533,140	(1,883,593)	177,256,686
Computers and accessories	108,083,710	12,816,240	-	120,899,950
Fixtures, fittings & equipment	137,118,844	19,714,935	(413,943)	156,419,836
Work in progress	<u>38,508,763</u>	<u>26,955,978</u>	<u>(4,363,940)</u>	<u>61,100,801</u>
	<u>672,829,754</u>	<u>133,020,293</u>	<u>(3,424,290)</u>	<u>802,425,757</u>
 DEPRECIATION				
Buildings	153,704,935	11,832,351	(42,453)	165,494,833
Motor vehicles	76,237,899	8,536,642	(1,864,094)	82,910,447
Computers and accessories	39,682,102	733,554	-	40,415,656
Fixtures, fittings & equipment	<u>102,707,227</u>	<u>18,202,049</u>	<u>(10,357)</u>	<u>120,898,919</u>
	<u>372,332,163</u>	<u>39,304,596</u>	<u>(1,916,904)</u>	<u>409,719,855</u>
 NET BOOK VALUE	<u>300,497,591</u>			<u>392,705,902</u>



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

Company COST	Disposals/ Balance at 30 June 2008 Birr	Additions Birr	Transfers/ Adjustments Birr	Balance at 30 June 2009 Birr
Buildings	283,511,298	-	3,237,187	286,748,485
Motor vehicles	104,933,413	73,229,997	(1,883,593)	176,279,817
Computers and accessories	107,186,684	12,680,966	-	119,867,650
Fixtures, fittings & equipment	135,980,946	19,626,584	(413,944)	155,193,586
Work in progress	<u>38,508,763</u>	<u>26,955,977</u>	<u>(4,363,940)</u>	<u>61,100,800</u>
	<u>670,121,104</u>	<u>132,493,524</u>	<u>(3,424,290)</u>	<u>799,190,338</u>
DEPRECIATION				
Buildings	153,704,935	11,832,351	(42,453)	165,494,833
Motor vehicles	75,816,442	8,407,244	(1,864,094)	82,359,592
Computers and accessories	39,353,338	636,171	-	39,989,509
Fixtures, fittings & equipment	<u>102,243,866</u>	<u>18,101,275</u>	<u>(10,357)</u>	<u>120,334,784</u>
	<u>371,118,581</u>	<u>38,977,041</u>	<u>(1,916,904)</u>	<u>408,178,718</u>
NET BOOK VALUE	<u>299,002,523</u>			<u>391,011,620</u>

**14. PROPERTY AND EQUIPMENT (continued)**

- b) The cost and accumulated depreciation of the fully depreciated old tower building which was sold to the National Bank of Ethiopia during the year ended 30 June 2007 has not yet been removed from the property and equipment account due to difficulty in determining the value of the said building separately as it is shown in the accounts in lump sum along with the adjacent circular building. Consequently, the full proceed from the sale of the building amounting to Birr 34,337,465 was shown as gain on disposal of property and equipment during the year ended 30 June 2007.

**15. DEPOSITS DUE TO OTHER BANKS**

	Birr	2008 Birr
Group and Company	<u>1,171,767,848</u>	<u>478,830,674</u>

**16. CUSTOMERS' DEPOSITS**

Group	Birr	2008 Birr
Payable on demand		
Private sector and retail customers	9,540,817,540	7,504,199,599
Local and Central Government	9,747,656,572	8,626,175,816
Public enterprises and agencies	<u>4,738,959,598</u>	<u>4,874,291,036</u>
	<u>24,027,433,710</u>	<u>21,004,666,451</u>
Savings deposits		
Private sector and retail customers	17,128,460,547	14,624,656,881
Public enterprises and agencies	<u>631,480,974</u>	<u>560,340,777</u>
	<u>17,759,941,521</u>	<u>15,184,997,658</u>
Term deposits		
Private sector and retail customers	274,103,179	146,350,216
Public enterprises and agencies	<u>247,108,080</u>	<u>186,147,620</u>
	<u>521,211,259</u>	<u>332,497,836</u>
	<u>42,308,586,490</u>	<u>36,522,161,945</u>

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**16. CUSTOMERS' DEPOSITS (continued)**

Company	Birr	2008 Birr
Payable on demand		
Private sector and retail customers	9,548,656,809	7,504,199,599
Local and Central Government	9,747,656,572	8,626,175,816
Public enterprises and agencies	<u>4,738,959,598</u>	<u>4,879,925,281</u>
	<u>24,035,272,979</u>	<u>21,010,300,696</u>
Savings deposits		
Private sector and retail customers	17,129,677,478	14,624,656,881
Public enterprises and agencies	<u>631,480,974</u>	<u>560,340,777</u>
	<u>17,761,158,452</u>	<u>15,184,997,658</u>
Term deposits		
Private sector and retail customers	274,103,179	146,350,216
Public enterprises and agencies	<u>247,108,080</u>	<u>186,147,620</u>
	<u>521,211,259</u>	<u>332,497,836</u>
	<u>42,317,642,690</u>	<u>36,527,796,190</u>

**17. INCOME TAX**

I. The movement in the account is as follows:-

Tax on	Tax on rental income Birr	Other operations Birr	Total Birr
Group			
Balance as at 30 June 2008	851,873	502,589,082	503,440,955
Add: Tax expense of current year	<u>1,083,471</u>	<u>789,107,858</u>	<u>790,191,329</u>
	<u>1,935,344</u>	<u>1,291,696,940</u>	<u>1,293,632,284</u>
Less: Payments made during the year:			
- Direct payments	851,873	506,610,032	507,461,905
- Withholding tax	-	<u>98,947</u>	<u>98,947</u>
	<u>851,873</u>	<u>506,708,979</u>	<u>507,560,852</u>
	<u>1,083,471</u>	<u>784,987,961</u>	<u>786,071,432</u>
Company			
Balance at 30 June 2008	851,873	501,791,490	502,643,363
Add: Tax expense of current year (note 17(iii))	<u>1,083,471</u>	<u>787,824,761</u>	<u>788,908,232</u>
	<u>1,935,344</u>	<u>1,289,616,251</u>	<u>1,291,551,595</u>
Less: Payments made during the year			
- Direct payments	851,873	505,812,440	506,664,313
	<u>1,083,471</u>	<u>783,803,811</u>	<u>784,887,282</u>



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II. In determining the taxable profit for the year, provisions for impairment losses on sundry debtors and acquired properties amounting to Birr 5,016,872 and Birr 2,865,811 respectively have been deducted as the management of the Bank is of the opinion that the same are deductible expenses as per Article 26 of Proclamation 286/2002 although it refers specifically to special technical reserves and not to provisions. However, the Ministry of Finance and Economic Development has confirmed in a letter that provisions for doubtful accounts will be accepted as tax deductible expense for finance institutes.

III. The tax for rental income of Addis Ababa City is shown separately as detailed below since same is to be paid to the Addis Ababa City Government as per Article 53(1) of the Revised Charter Proclamation No. 311/2003 of the Addis Ababa City Government while the rent tax for all other regions is included in the tax expense for other operations as the regions are not yet authorized to collect rent tax.

	Birr	Birr
Rental income		4,392,097
Expenses		
Depreciation	716,645	
Insurance	28,870	
Land and building tax	35,013	
		<u>780,528</u>
		3,611,569
Tax expense (note 17(i))		<u>x30%</u>
		<u>1,083,471</u>

**18. STATE DIVIDEND PAYABLE**

	Birr	2008 Birr
Balance as at 30 June 2008	1,020,893,667	648,418,071
Current year appropriation	<u>1,440,928,748</u>	<u>1,020,382,710</u>
	2,461,822,415	1,668,800,781
Less: Payment to Ministry of Finance and Economic Development	<u>510,298,863</u>	<u>647,907,114</u>
	<u>1,951,523,552</u>	<u>1,020,893,667</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**19. OTHER LIABILITIES**

	Birr	2008 Birr
Group		
Margin accounts and deposits for guarantees	2,617,770,015	2,038,999,677
Interbranch clearing	3,162,359,155	3,016,891,308
Bills payable	337,812,066	673,208,332
Blocked accounts	242,872,358	215,511,319
Exchange commission payable to National Bank of Ethiopia	164,574,694	75,971,361
Accrued leave pay	41,833,414	38,231,355
Taxes payable	7,593,208	12,930,490
Pension contribution payable	1,784,535	1,754,539
Miscellaneous payables and accruals	<u>1,572,990,187</u>	<u>1,189,116,828</u>
	<u>8,149,589,632</u>	<u>7,262,615,209</u>
Company		
Margin accounts and deposits for guarantees	2,617,770,015	2,038,999,677
Interbranch accounts	3,162,359,155	3,016,891,308
Bills payable	337,812,066	673,208,332
Blocked accounts	242,872,358	215,511,319
Exchange commission payable to National Bank of Ethiopia	164,574,694	75,971,361
Accrued leave pay	41,833,414	38,231,355
Taxes payable	7,511,049	12,833,021
Pension contribution payable	1,784,535	1,754,539
Miscellaneous payables and accruals	<u>1,554,578,083</u>	<u>1,171,003,229</u>
	<u>8,131,095,369</u>	<u>7,244,404,141</u>

**20. CAPITAL**

a) The capital of the Bank has been increased to Birr 4,000,000,000 during the year ended 30 June 2007 through a special bond issued by the Ministry of Finance and Economic Development (MoFED) with a value of Birr 2,500,000,000 to be paid to the Bank in ten equal annual installments starting from 1 July 2008 and by transfer from previous appropriations.

b) The Bank is wholly owned by the Federal Government of Ethiopia. Assigned capital represents capital allocated to the Bank and is not repayable to the Government in whole or part thereof, as long as the Bank continues trading. There are no shares and no par value.

**21. LEGAL RESERVE**

	Group Birr	Company Birr
Balance at 30 June 2008	557,110,956	556,266,926
Current year appropriation	<u>480,449,586</u>	<u>480,309,582</u>
	<u>1,037,560,542</u>	<u>1,036,576,508</u>

The legal reserve is a statutory reserve to which not less than 25% of the net profit shall be transferred each year until such reserve equals the capital of the Bank and thereafter 10% of the net profit shall be transferred each year.



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**22. DEFERRED TAX LIABILITY**

	Birr	2008 Birr
Difference in tax base of property and equipment and their value for accounting purposes:-		
Group	<u>14,092,131</u>	<u>8,493,857</u>
Company	<u>13,984,171</u>	<u>8,396,883</u>

**23. INTEREST INCOME**

	CBE Birr	CN Birr	Total Birr	2008 Total Birr
Loans and advances	1,462,991,693	-	1,462,991,693	885,775,349
Government bonds	38,007,874	-	38,007,874	42,733,589
Treasury bills	12,299,137	-	12,299,137	83,261,180
Placements with other banks	15,524,378	39,015	15,563,393	51,860,025
Coupon bonds	827,289,813	-	827,289,813	477,523,934
Interest earned on fund surrender	<u>1,727,257</u>	<u>-</u>	<u>1,727,257</u>	<u>-</u>
	<u>2,357,840,152</u>	<u>39,015</u>	<u>2,357,879,167</u>	<u>1,541,154,077</u>

**24. INTEREST EXPENSE**

	CBE Birr	CN Birr	Total Birr	2008 Total Birr
Customers' deposits	612,770,723	-	612,770,723	533,037,299
Deposits from other banks	20	-	20	432,148
Other	<u>1,318,314</u>	<u>-</u>	<u>1,318,314</u>	<u>417,015</u>
	<u>614,089,057</u>	<u>-</u>	<u>614,089,057</u>	<u>533,886,462</u>

**25. NON INTEREST INCOME**

	CBE Birr	CN Birr	Total Birr	2008 Total Birr
Write back of creditors accounts	4,252,465	-	4,252,465	4,571,315
Commission income	388,959,355	-	388,959,355	278,988,247
Service and transaction fees	438,189,874	11,928,754	450,118,628	400,596,217
Gains less losses arising from dealing in foreign currencies	515,885,712	-	515,885,712	559,458,312
Rental income	11,220,279	-	11,220,279	11,806,686
Dividend income	-	-	-	67,768
Collection from provision held	3,813,376	-	3,813,376	2,847,679
Gain on disposal of property and equipment	2,150,021	-	2,150,021	56,070
Other income	<u>125,220,952</u>	<u>143,720</u>	<u>125,364,672</u>	<u>171,913,843</u>
	<u>1,489,692,034</u>	<u>12,072,474</u>	<u>1,501,764,508</u>	<u>1,430,306,137</u>

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**26. NON INTEREST EXPENSES**

	CBE Birr	CN Birr	Total Birr	2008 Total Birr
Salaries and employee benefits	325,077,276	3,563,588	328,640,864	307,245,350
Depreciation	38,977,041	327,555	39,304,596	32,350,591
Postage and telecommunication	27,255,126	182,891	27,438,017	24,999,795
Occupancy expenses	16,138,239	1,143,065	17,281,304	14,386,271
Stationery and office supplies	14,706,559	325,737	15,032,296	13,946,004
Travel costs	7,450,496	59,263	7,509,759	7,727,950
Service charge	2,126,866	1,547,694	3,674,560	3,644,980
Advertising and publicity	4,369,460	83,183	4,452,643	5,333,189
Motor vehicle running costs	8,609,488	73,545	8,683,033	8,190,439
Legal and consultancy fees	2,276,398	45,680	2,322,078	2,099,889
Repairs and maintenance	4,737,290	33,456	4,770,746	3,624,255
Insurance	3,487,253	193,838	3,681,091	2,760,867
Water and electricity	3,948,426	48,654	3,997,080	3,748,912
Board fees	289,000	8,810	297,810	141,615
Audit fee	345,060	8,000	353,060	308,000
Direct write off of sundry debtors	307,862	-	307,862	658,890
Land and building tax	705,099	-	705,099	730,192
Electronic data processing	418,201	-	418,201	342,161
Impairment loss on government guarantee	-	-	-	82,956,389
Service charge for bank guarantee	-	73,512	73,512	209,117
Grants and contributions	-	5,000	5,000	1,500
Other expenses	<u>48,601,455</u>	<u>96,804</u>	<u>48,698,259</u>	<u>40,651,921</u>
	<u>509,826,595</u>	<u>7,820,275</u>	<u>517,646,870</u>	<u>556,058,277</u>

The average number of employees during the year was:

	CBE	CN	Total	2008 Total
Management	564	-	564	1,155
Unionisable	<u>7,391</u>	<u>241</u>	<u>7,632</u>	<u>7,118</u>
	<u>7,955</u>	<u>241</u>	<u>8,196</u>	<u>8,273</u>

Included in other expenses are contributions to the pension and provident fund for employees. During the year, the Group and Company expensed Birr 13,508,490 in contributions payable (2008 - Birr 12,261,730).



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**27. TAX EXPENSE****a) MAJOR COMPONENTS OF TAX EXPENSE**

	CBE Birr	CN Birr	Total Birr	2008 Total Birr
Current tax Current tax expense	788,908,232	1,283,097	790,191,329	505,116,829
Deferred tax expense relating to the origination and reversal of temporary differences	<u>5,587,288</u>	<u>10,986</u>	<u>5,598,274</u>	<u>2,041,981</u>
Tax expense	<u>794,495,520</u>	<u>1,294,083</u>	<u>795,789,603</u>	<u>507,158,810</u>

**b) EXPLANATION OF THE RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT**

	CBE Birr	CN Birr	Total Birr	2008 Total Birr
Accounting profit	<u>2,715,733,851</u>	<u>4,291,214</u>	<u>2,720,025,065</u>	<u>1,869,723,364</u>
Tax at the applicable rate of 30%	814,720,155	1,287,364	816,007,519	560,917,009
Add: Tax effect of tax disallowed expenses				
- Entertainment	668,794	16,923	685,717	472,873
- Donation	-	1,500	1,500	-
	<u>815,388,949</u>	<u>1,305,787</u>	<u>816,694,736</u>	<u>561,389,882</u>
Less: Tax effect of tax exempted income:				
- Interest income	(19,749,417)	(11,704)	(19,761,121)	(53,356,438)
- Dividend income	-	-	-	(20,330)
- Collection from provision held	<u>(1,144,012)</u>	<u>-</u>	<u>(1,144,012)</u>	<u>(854,304)</u>
	<u>(20,893,429)</u>	<u>(11,704)</u>	<u>(20,905,133)</u>	<u>(54,231,072)</u>
	<u>794,495,520</u>	<u>1,294,083</u>	<u>795,789,603</u>	<u>507,158,810</u>

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****a) Reconciliation of profit before taxation to cash flow from operating activities**

	Birr	Birr	2008 Birr
Profit before taxation	2,720,025,065		1,869,723,364
Impairment loss on special government bond	-		-
Dividend received	-		(67,768)
Gain on disposal of property and equipment	(2,150,021)		(56,070)
Depreciation	39,304,596		33,747,633
Adjustment to fixed assets	<u>1,487,887</u>		<u>281,739</u>
			<u>1,903,628,898</u>
Decrease/(Increase) in operating assets		2,758,667,527	
Treasury bills more than 90 days	671,073,230		(1,323,916,291)
Government bonds	172,429,969		176,703,468
Coupon bonds with DBE and regional states	(3,273,175,412)		(2,881,975,023)
Term bonds with EEPKO	(3,200,000,000)		(2,500,000,000)
Loans and advances to banks	(253,652,126)		50,289,506
Loans and advances to customers	(2,204,012,081)		(7,950,326,679)
Other advances	(1,523,923,415)		-
Other assets	(747,256,655)		(315,354,774)
Cash held with NBE - cash reserve	<u>(900,713,655)</u>		<u>(4,140,672,670)</u>
		(11,259,230,145)	<u>(18,885,252,463)</u>
Increase/ (decrease) in operating liabilities			
Customers' deposits	5,786,424,545		3,717,936,989
Other liabilities	<u>886,974,423</u>		<u>2,050,618,304</u>
		6,673,398,968	<u>5,768,555,293</u>
Taxation paid		<u>(507,560,852)</u>	<u>(304,476,852)</u>
Cash flow from operating activities		<u>(2,334,724,502)</u>	<u>(11,517,545,124)</u>

**b) Analysis of cash and cash equivalents**

	2009 Birr	2008 Birr	Change Birr	2008 Change Birr
Cash in hand	1,011,212,620	988,495,492	22,717,128	323,380,845
Investment in treasury bills	-	264,995,632	(264,995,632)	(7,642,090,343)
Balances with National Bank of Ethiopia	978,711,270	3,004,208,592	(2,025,497,322)	(4,472,792,418)
Placements with other banks	1,450,059,940	1,465,221,078	(15,161,138)	(177,422,066)
Deposits due to other banks	<u>(1,171,767,848)</u>	<u>(478,830,674)</u>	<u>(692,937,174)</u>	<u>(289,190,956)</u>
	<u>2,268,215,982</u>	<u>5,244,090,120</u>	<u>(2,975,874,138)</u>	<u>(12,258,114,938)</u>



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**29. NOTES TO THE BANK STATEMENT OF CASH FLOWS**

**a) Reconciliation of profit before taxation to cash flow from operating activities**

	Birr	Birr	2008 Birr
Profit before taxation	2,715,733,851		1,866,780,007
Impairment loss on special government bond	-		-
Dividend received	-		(67,768)
Gain on disposal of property and equipment	(2,150,021)		(56,070)
Depreciation	38,977,041		33,498,275
Adjustment to fixed assets	1,487,887		281,709
		2,754,048,758	1,900,436,153
Decrease/(Increase) in operating assets			
Treasury bills more than 90 days	671,073,230		(1,323,916,291)
Government bonds	172,429,969		176,703,468
Coupon bonds with DBE and regional states	(3,273,175,412)		(2,881,975,023)
Term bonds with EEPKO	(3,200,000,000)		(2,500,000,000)
Loans and advances to banks	(253,652,126)		50,289,506
Loans and advances to customers	(2,204,012,081)		(7,950,326,679)
Other advances	(1,523,923,415)		-
Other assets	(747,201,954)		(295,273,932)
Cash held with NBE - cash reserve	(900,713,655)		(4,140,672,670)
		(11,259,175,444)	(18,865,171,621)
Increase/ (decrease) in operating liabilities			
Customers' deposits	5,789,846,500		3,716,798,533
Other liabilities	886,691,228		2,033,323,174
		6,676,537,728	5,750,121,707
Taxation paid		(506,664,313)	(303,635,869)
Cash flow from operating activities		(2,335,253,271)	(11,518,249,630)

**b) Analysis of cash and cash equivalents**

	2009 Birr	2008 Birr	Change Birr	2008 Change Birr
Cash in hand	1,011,209,720	988,494,592	22,715,128	323,381,345
Investment in treasury bills	-	264,995,632	(264,995,632)	(7,642,090,343)
Balances with National Bank of Ethiopia	978,711,270	3,004,208,592	(2,025,497,322)	(4,472,792,418)
Placements with other banks	1,450,059,940	1,465,221,078	(15,161,138)	(177,422,066)
Deposits due to other banks	(1,171,767,848)	(478,830,674)	(692,937,174)	(289,190,956)
	2,268,213,082	5,244,089,220	(2,975,876,138)	(12,258,114,438)

**c) Some balance sheet items that do not involve actual movements in cash have been excluded from the cash flow statement.**

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**30. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS**

**Group and company**

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

	Birr	2008 Birr
Letters of credit and acceptances	9,167,523,403	3,585,489,637
Guarantees and performance bonds	11,929,305,273	8,976,757,023
	21,096,828,676	12,562,246,660

**Nature of contingent liabilities**

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

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Guarantees are generally written by a 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 customers default.

**31. ASSETS PLEDGED AS SECURITY**

As at 30 June 2009 there were no assets pledged by the Bank to secure liabilities and there were no secured Bank liabilities.

**32. TRUST FUNDS**

Assets held in trust by the Bank and its subsidiary are as follows:-

	Birr	2008 Birr
Group		
Cash held on behalf of National Bank of Ethiopia	1,806,832,000	2,241,590,592
Trust Funds	20,284,446	74,565,072
	1,827,116,446	2,316,155,664
Company		
Cash held on behalf of National Bank of Ethiopia	1,806,832,000	2,241,590,592
Trust Funds	20,284,446	19,302,969
	1,827,116,446	2,260,893,561

The Bank provides custodial services to the National Bank of Ethiopia (NBE) at various branches across the country, whereby the Bank holds cash on behalf of NBE.

The Bank and its subsidiary are involved in trust activities in which they hold and invest assets on behalf of various institutions, donor-sponsored projects, and pension funds.



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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### 33. RELATED PARTY TRANSACTIONS

Related parties are considered to be other entities that exercise significant influence over the Bank's financial and operating decisions or entities over which the Bank is able to exercise significant influence in their financial and operating decisions. However, as per the provisions of IAS 24 related parties do not include the government, government departments or agencies.

- i) Included in loans and advances is Birr 120,089,777, (2008 - Birr 96,592,887) advanced to employees. Loans to employees are non-interest bearing.
- ii) Interest paid during the year on deposit balances from related companies through shareholding is Birr 39,015 (2008 - Birr 23,598). All transactions with related parties are at arm's length.

### 34. STAFF COSTS

During the year, staff costs for the group and company amounted to Birr 349,571,453 (2008 - Birr 323,827,817) and are included in the various major expense categories.

### 35. PERFORMANCE INDICATORS

The capital adequacy ratio as at 30 June 2009 revealed a percentage of 14.64% which is in excess of the required ratio of 8% as per the directives of the National Bank of Ethiopia. The non-performing loans ratio has decreased from 5.33% in the preceding year to 3.66% in the current year.

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

### 36. MATURITIES OF ASSETS AND LIABILITIES - LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2009 to the contractual maturity date:

	demand Birr	On 3 months Birr	Due within 3 and 12 months Birr	Due between 1 and 5 years Birr	Due between 5 years Birr	Due after Total Birr
<b>Assets</b>						
Cash and balances with NBE	1,989,923,890	-	-	-	6,768,917,853	8,758,841,743
Investment in Government securities	250,000,000	272,207,350	1,831,014,315	1,586,194,822	1,470,587,395	5,410,003,882
Coupon bonds with DBE and regional states	190,863,553	13,011,387	132,617,030	996,323,648	6,697,165,869	8,029,981,487
Term bonds with EEPCO	-	-	178,571,429	5,457,142,856	6,164,285,715	11,800,000,000
Placements with other banks	1,424,733,437	25,326,503	-	-	-	1,450,059,940
Loans and advances to banks	42,902,226	-	55,206,487	57,815,006	278,142,547	434,066,266
Loans and advances to customers	1,532,129,745	1,336,283,407	8,082,669,087	3,847,044,461	3,500,584,483	18,298,711,183
Other advances	-	-	-	1,523,923,415	-	1,523,923,415
Investment in associates	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	2,768,051	2,768,051
Other assets	-	1,286,883,198	50,436,733	806,125,567	1,188,777,247	3,332,222,745
Property and equipment	-	-	-	-	392,705,902	392,705,902
<b>Total assets</b>	<b>5,430,552,851</b>	<b>2,933,711,845</b>	<b>10,330,515,081</b>	<b>14,274,569,775</b>	<b>26,466,840,120</b>	<b>59,436,189,672</b>
<b>Liabilities</b>						
Deposits due to other banks	1,171,767,848	-	-	-	-	1,171,767,848
Customers' deposits	24,027,433,710	17,759,941,521	521,211,259	-	-	42,308,586,490
Taxation	-	786,071,432	-	-	-	786,071,432
State dividend payable	-	1,951,523,552	-	-	-	1,951,523,552
Other liabilities	-	6,052,814,744	2,096,774,888	-	-	8,149,589,632
<b>Total liabilities</b>	<b>25,199,201,558</b>	<b>26,550,351,249</b>	<b>2,617,986,147</b>	<b>-</b>	<b>-</b>	<b>54,367,538,954</b>
<b>Net liquidity gap as at 30 June 2009</b>	<b>(19,768,648,707)</b>	<b>(23,616,639,404)</b>	<b>7,712,528,934</b>	<b>14,274,569,775</b>	<b>26,466,840,120</b>	<b>5,068,650,718</b>
<b>Net liquidity gap as at 30 June 2008</b>	<b>(13,415,265,608)</b>	<b>(17,904,059,050)</b>	<b>7,727,729,107</b>	<b>6,261,057,136</b>	<b>21,910,284,144</b>	<b>4,579,745,730</b>



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**37. INTEREST RATE RISK ANALYSIS**

The table below summarises the exposure to interest rate risks. Included in the table below are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Assets	Effective interest Rate %	On demand Birr	Due within 3 months Birr	Due between 3 and 12 months Birr	Due between 1 and 5 years Birr	Due after 5 years	Non interest bearing	Total Birr
Cash and balances with NBE	-	-	272,207,350	1,831,014,315	-	-	8,758,841,743	8,758,841,743
Investments in Government securities	2.13	250,000,000	-	-	1,586,194,823	1,470,587,394	-	5,410,003,882
Coupon bonds with DBE and regional states	4.72	190,863,553	13,011,387	132,617,030	996,323,648	6,697,165,869	-	8,029,981,487
Term bonds with EEPCO	4.72	-	25,326,503	178,571,429	5,457,142,856	6,164,285,715	-	11,800,000,000
Placements with other banks	0.70	1,424,733,437	-	-	-	-	-	1,450,059,940
Loans and advances to banks	3.54	42,902,226	-	55,206,487	57,815,006	278,142,547	-	434,066,266
Loans and advances to customers	7.80	1,532,129,745	1,336,283,407	8,082,669,087	3,847,044,461	3,500,584,483	-	18,298,711,183
Other advances	-	-	1,523,923,415	-	-	-	-	1,523,923,415
Investment in associates	-	-	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	-	-	2,768,051	2,768,051
Other assets	-	-	-	-	-	-	3,332,222,745	3,332,222,745
Property and equipment	-	-	-	-	-	-	392,705,902	392,705,902
Total assets	-	3,440,628,961	1,646,828,647	10,280,078,348	11,944,520,794	18,110,766,008	14,013,366,914	59,436,189,672
Liabilities	-	-	-	-	-	-	-	-
Deposits due to other banks	-	1,171,767,848	-	-	-	-	-	1,171,767,848
Customers' deposits	3.6	24,027,433,710	17,759,941,521	521,211,259	-	-	-	42,308,586,490
Taxation	-	-	-	-	-	-	786,071,432	786,071,432
State dividend payable	-	-	-	-	-	-	1,951,523,552	1,951,523,552
Other liabilities	-	-	-	-	-	-	8,149,589,632	8,149,589,632
Total liabilities	-	25,199,201,558	17,759,941,521	521,211,259	-	-	10,887,184,616	54,367,538,954
On balance sheet interest sensitivity gap at 30 June 2009	-	(21,758,572,597)	(16,113,112,874)	9,758,867,089	11,944,520,794	18,110,766,008	3,126,182,298	5,068,650,718
On balance sheet interest sensitivity gap at 30 June 2008	-	(17,757,686,574)	(12,936,291,244)	7,683,022,137	9,035,189,674	14,590,416,496	3,965,095,241	4,579,745,730

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2009**

**38. FOREIGN CURRENCY RISK**

The table below analyses the currencies to which the group is exposed at 30 June 2009.

	USD Birr	GBP Birr	EURO Birr	OTHER Birr	TOTAL Birr
At 30 June 2009					
Assets					
Cash and balances with National Bank of Ethiopia	71,449,919	2,316,171	21,690,420	9,914,489	105,370,999
Investment in government securities	-	-	-	-	-
Coupon bonds with DBE and regional states	-	-	591,469,093	-	-
Term bonds with EEPCO	-	-	-	-	-
Placements with other banks	10,928,627	-	-	68,140,038	-
Loans and advances to banks	-	82,913,529	-	-	753,451,287
Loans and advances to customers (net)	-	-	-	-	-
Other advances	-	-	-	-	-
Investment in associates	-	-	-	-	-
Other investments	-	-	-	-	-
Other assets	2,244,198,508	495,120	38,542,277	394,678	2,283,630,583
Property and equipment	-	-	-	-	-
Total foreign currency assets	2,907,117,520	13,739,918	128,372,735	93,222,696	3,142,452,869
Liabilities					
Deposits due to other banks	-	-	-	-	-
Customers' deposits	706,899,849	10,282,747	161,339,097	36,580	878,558,273
Taxation	-	-	-	-	-
State dividend payments	-	-	-	-	-
Other liabilities	387,277,528	-	1,564,903	-	388,842,431
Total foreign currency liabilities	1,094,177,377	10,282,747	162,904,000	36,580	1,267,400,704
Off balance sheet net notional position	4,377,984,820	50,288,989	1,255,676,996	29,703,017	5,713,653,822
Foreign currency exposure at 30 June 2009	(2,565,044,677)	(46,831,818)	(1,290,208,261)	63,483,099	(3,838,601,657)
As at 30 June 2008					
Total foreign currency assets	930,086,809	91,220,473	275,036,404	141,319,439	1,437,663,125
Total foreign currency liabilities	703,224,589	9,350,148	132,795,259	31,306	845,401,302
Off balance sheet net notional position	1,418,434,293	113,618,865	853,360,540	96,008,661	2,481,422,359
Foreign currency exposure at 30 June 2008	(1,191,572,073)	(31,748,540)	(711,119,395)	45,279,472	(1,889,160,536)



**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**39. RISK MANAGEMENT DISCLOSURES**

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

**A) Risks**

**i) Credit risk**

The Group's credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

The risk that counter-parties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Group deals with counter-parties of good credit standing, enters into master agreements whenever possible, and when appropriate, obtains collateral.

The Group also monitors concentrations of credit risk by industry and type of customer in relation to the Group loans and advances to customers by carrying a balanced portfolio. The Group has a significant exposure to individual customers or counter parties.

**ii) Liquidity risk**

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised mainly from deposits and state capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

**COMMERCIAL BANK OF ETHIOPIA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**39. RISK MANAGEMENT DISCLOSURES**

**iii) Market risk Interest rate risk**

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Group's business strategies. The Group does not have any significant interest rate risk exposures.

**Currency risk**

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

**Risk measurement and control**

Interest rate, currency, credit, liquidity and other risks are actively managed by independent risk control group to ensure compliance with the Group's risk limits. The Group's risk limits are assessed regularly to ensure their appropriateness given the Group's objectives and strategies and current market conditions. A variety of techniques are used by the Group in measuring the risks inherent in its trading and non-trading positions.

**40. OTHER CONTINGENT LIABILITIES**

The Bank is defendant for a total amount of about Birr 18.9 million in respect of legal actions brought by different organizations and individuals which are contested by the Bank. It is difficult to assess the probable outcome of these cases at the moment.

**41. CAPITAL COMMITMENTS**

	Birr	2008 Birr
Group and company	<u>45,950,670</u>	<u>80,809,803</u>

**42. ESTABLISHMENT**

The Bank is established as a limited liability public enterprise under the proclamation of the Federal Democratic Republic of Ethiopia. Its principal place of business is in Addis Ababa, Ethiopia and has 207 branches in various parts of the country.

**43. SUBSEQUENT EVENT**

The capital of CN has been raised from Birr 4,517,000 to Birr 12,204,000 effective July 2009. Accordingly, CBE's shareholding will increase from Birr 4,220,000 to Birr 11,401,000 in the following year.

**44. AUTHORIZATION**

The President of the Bank authorized the issue of these financial statements on 4 November 2009.





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