

Annual
Report
2009/10



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COMMERCIAL BANK OF ETHIOPIA

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Annual Report 2009/10



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COMMERCIAL BANK OF ETHIOPIA

Marching towards Attaining a World-class Repute

Contents

Key Figures	8
1. Message of the President	10
2. Macroeconomic Highlight	12
2.1. Global Economy	12
2.2. The Ethiopian Economy	14
3. Financial Position	16
3.1. Net-Interest Income	16
3.2. Net-Interest Margin	16
3.3. Non-Interest Income	16
3.4. Operating Expenses	17
3.5. Operating Profit	18
3.6. Earning Capability	18
3.7. Liquidity	19
4. Balance sheet Analysis	20
4.1. Assets' Structure	20
4.2. Loan Portfolio	20
4.3. Liabilities	23
4.4. Capital Adequacy	24
5. International banking activities	26
6. Human Resource Activities	28
7. Business Development Highlights	29



CBE's Future Head Quarter

PROFILE

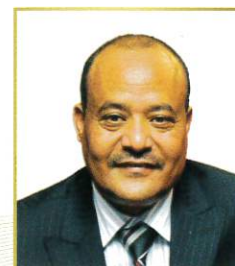
- Established in 1942.
 - The first bank to introduce ATM service to Ethiopia.
 - Introduced Western Union Money Transfer Services to Ethiopia.
 - Had 220 branches across the country by June 2010.
 - Leading African bank with assets of Birr 74.2 billion in 30th June 2010.
 - Plays a catalytic role in the economic progress and development of the country.
 - The first bank in Ethiopia to introduce ATM service for local users.
- Has about 2 million account holders.
- Strong correspondent relationship with 54 renowned foreign banks and a SWIFT bilateral arrangement with 840 others.
 - Combines wide capital base with 8,726 talented and committed employees.

COMMERCIAL BANK OF ETHIOPIA

BOARD OF DIRECTORS



● H.E Ato Abay Tsehay
Board Chairman



● Ato Nebiyu Samuel
Board Member



● H.E Ato Fikru Dessalegn
Board Member



● Dr. Wolday Amha
Board Member



● Ato Getachew Negera
Board Member



● Ato Esayas Kebede
Board Member



● Dr. Mesfin Belachew
Board Member



● Woy. Genet Abera
Board Member



● Ato Alemayehu Hunde
Board Secretary

COMMERCIAL BANK OF ETHIOPIA

THE PROCESS COUNCIL



● **Ato Bekalu Zeleke**
President



● **Ato Belay Gorfu**
Finance
Vice President



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



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



● **Ato Endale Gebru**
Human Resource
Development
Vice President



● **Ato Solomon Alula**
Chief Internal Auditor



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



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



● **Ato Yehuala Gessesse**
Credit Appraisal and Portfolio
Vice President



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



● **Ato Kifletsion Mamo**
Chief Legal and Loan
Recovery Officer

KEY FIGURES

As at 30 June (in Millions Birr)	2010	2009	Percentage Change
Total Income	4,494.2	3,847.5	16.8
Interest Income	2,742.8	2,357.8	16.3
Non-Interest Income	1,751.4	1,489.7	17.6
Total Expense	1,675.6	1,123.9	49.1
Interest Expense	744.1	614.1	21.2
Non-Interest Expense	931.5	509.8	82.7
Profit Before Tax	2,808.1	2,715.7	3.4
Net Profit for the Year	1,968.3	1,921.2	2.5
Total Assets	74,187.0	59,411.7	24.9
Outstanding Loans and Advances	22,861.4	19,382.1	18.0
Liabilities	68,632.0	54,356.9	26.3
Total Deposits	54,678	43,489.4	27.7
Capital and Reserve	5,532.7	5,040.8	9.8
Number of Branches	220	208	5.8
Number of Employees	8,726	7,955	9.7

The CBE is the pioneer bank which installed ATM in Ethiopia. It is currently engaged in developing infrastructure for the introduction of a Visa-branded card payment system.

The Bank is one of the principal members of Visa International.

VISION

To Become a World Class Commercial Bank by the year 2025

MISSION

We are committed to realizing the needs of stakeholders through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated, skilled and disciplined employees as Well as state-of-the-art technology. We strongly believe that winning the public confidence is the basis of our success.

VALUES

- Corporate Citizenship
 - We value the importance of our role in national development endeavor and step-up for commitment.
 - We abide by the law of Ethiopia and other countries in which we do business.
 - We care about society's welfare and the environment.
- Customer Satisfaction
 - We strive to excel in our business and satisfy our customers.
- Quality Service
 - We are committed to offer quality service to our customers and aspire to be branded with quality in the minds of our customers and the general public.
- Innovation
 - We encourage new ideas that can improve customers' experience and the Bank's performance.
- Teamwork
 - We recognize the importance of teamwork for our success.
 - We respect diversity of viewpoints.
- Integrity
 - We are committed to the highest ideas of honor and integrity.
- Employees
 - We recognize our employees as valuable organizational resources.
- Public Confidence
 - We understand that the sustainability of our business depends on our ability to maintain and build up the public's confidence.



It gives me a great pleasure to succinctly present here the major achievements of the Commercial Bank of Ethiopia for the fiscal year 2009/10.

During the year in review, the Ethiopian economy witnessed a GDP growth of about 10.2%. The good performance of the agricultural sector was responsible for this robust and steady growth, in addition to the good contribution of the 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 challenged by inflation.

Corollary to the robust growth of the economy, the CBE has outperformed its target. At the end of the fiscal year 2009/10, the total assets of the Bank stood at Birr 74.2 billion, while total deposits and other liabilities reached Birr 54.7 billion, reflecting a growth of 25% and 28% respectively over the preceding year in the face of the growing competition in the sector. This performance consolidates the leading role of the Bank in the industry.

A look into the operating results shows that the Bank has registered commendable performance, mainly due to the growing volume of business in the economy and the diligence of the staff. The

overall income recorded by the Bank during the fiscal year reached Birr 4.5 billion, about Birr 647 million higher than the previous year and of course an all time high. Its gross profit also surged to Birr 2.8 billion displaying 3.4% rise.

The CBE has demonstrated its commitment to reaching out potential customers by opening 12 more branches across the country. The opening of these branches not only enables the Bank to widen its customer base but also guarantees accessibility.

Though efforts had been invigorated to develop the IT infrastructure of the Bank, the Management believes that the CBE has still a long way to go before it could provide quality service to customers and maintain the preeminent position of the Bank.

Finally, I would like to thank the Board of Directors for its visionary leadership and the employees of CBE for their commitment to achieving such an outstanding result during the period under review. Above all I would like to express my appreciation to the customers of the Bank in particular and the public in general for their priceless contribution to the operational success of the CBE.

I am confident that with the continued support our esteemed customers and the dedication of the staff, we will have no difficulty in achieving our vision of becoming a world-class commercial bank by the year 2025.

Bekalu Zeleke
President



2.1 Global Economy

Although the IMF report of April 2010 projected global growth for both 2010 and 2011 fiscal years to reach 4.25 percent, another report issued on July 2010 indicated that the global growth for 2010 will be 4.5% whereas the projection for 2011 would remain 4.25%, mostly due to a normal and strong growth in Asia. Broadly speaking, there were encouraging signs of growth in production, trade, private demand and employment. Double-digit growth in industrial production and trade is registered in Asia, demand on consumer goods continued to improve globally, and there is growth on employment in advanced economies. Overall, macroeconomic developments during much of the end of the fiscal year 2010 confirmed expectations of a modest, but steady, recovery in the most advanced economies and strong growth in many emerging and developing economies. The emerging Asian economy is still leading the recovery by expanding at the rate of 7.5 and 6.4 percents in 2010 and 2011, respectively (WEO, June 2010).

Growth in emerging and developing countries remains highly dependent upon movements in international trade, commodity prices and capital flows. Among the advanced economies, the US economy is at a better start than Europe or Japan. Real GDP is projected to grow by 3.3 percent in 2010 and to 2.9 percent in 2011 when policy stimulus is withdrawn. The growth projection for China is forecasted to be 10.5 and 9.6 percent for 2010 and 2011 respectively, and for India it is 9.4 and 8.4 percent for the consecutive two years. Sub-Saharan Africa is assumed to grow by 5% in 2010 and 6 percent in 2011.

Output in advanced economies is expected to expand by 2.25 percent in 2010 and by 2.5 percent in 2011, after a contraction of 3 percent in 2009. Growth in emerging and developing economies is expected to rise to over 6.25 percent in 2010/11, following a 2.5 percent growth in 2009. However, the pace of the recovery differs significantly across countries and within regions.

In sub-Saharan Africa and most middle-income economies, sharp contractions in output being experienced in 2009 are now recovering, supported by the rebound in global trade and commodity prices. Sub-Saharan Africa has well managed the global crisis and the recovery rate from the 2009s slowdown is higher than previous global downturns though oil-exporting economies in the region were victims of the incidence. The region's output growth is projected to accelerate to 5 percent this year and to 6 percent in 2011 from where it was 2 percent in 2009. This growth shows that most low-income economies have less integration with the global economy and thus global economic crises have a limited impact on their performance. Remittances and official aid flows have also been less affected than anticipated by the recessions in advanced economies.

With regard to financial market performances, the global economic recovery is continuing despite financial instability. This financial turbulence has so far little negative spillovers to real activity at

global level and the potential of dampening effect on growth of recent financial stress is highly uncertain. Given the relatively modest effects of the financial turbulence on euro area growth and on commodity prices to date, growth prospects remain favorable for many developing countries in sub-Saharan Africa as well as for commodity producers in all regions. Confidence in consumer, business and financial markets have picked up (WEO July 2010).

The WEO July 2010 report further pointed out that in advanced economies, the tightening of bank lending standards is ending and the credit crisis appears to be bottoming out, while in many emerging and developing economies credit growth is reaccelerating. Financial conditions, however, remain more difficult than before the crisis.

According to the WEO report inflation pressure is not expected to show significant changes, especially in advanced economies. The high level of capacity utilization, high unemployment rates and anchored inflation expectations have created a passive inflation pressure on these economies. Inflation in advanced economies is expected to be between 1.25-1.5 percent in 2010 and 2011. In a number of advanced economies, the risks of deflation remain important in light of the relatively weak outlook for growth and the persistence of considerable economic slacks.

In contrast, in emerging and developing economies, low levels of capacity utilization and strong inflation expectations are expected to keep inflation high and more volatile. Thus inflation is expected to edge up to 6.25 percent in 2010 before subsiding to 5 percent in 2011.

Regarding unemployment in advanced economies, recovery is expected to be sluggish and employment to contract, whereas in emerging economies, employment continues to expand supported by strong potential growth. Unemployment is projected to stay close to 8.5 percent through the 2011 fiscal year in advanced economies and then to decline slowly.

The January 2010 UN report shows that there was a sharp decline in commodity prices in 2009 due to decline in price indices of agricultural raw materials and minerals by more than 20 percent. These trends have however been reversed since the second half of 2009. Prices of minerals are expected to increase by more than 40 percent as the robust growth in China in particular is keeping up global demand for these commodities. The price of Brent crude oil has become 72 USD per barrel on average in 2010 which showing an increase of 16 percent over the average for 2009.

2.2 The Ethiopian Economy

Ethiopia has been successfully implementing policies that reduce inflation and rebuild external reserves, according to the country report of the IMF. For the past six years, the economy has enjoyed strong growth, largely owing to government-led development policies with an emphasis on public investment, commercialization of agriculture, and non-farm private sector investments. According to the July 2010 MoFED report, growth rebounded at an annual average rate of 11 percent for the period 2003/04–2009/10. Although initially led by agriculture, the growth has been broad-based, with a rising contribution from the service and industry sectors that contributed 46% and 13% of the GDP respectively in 2009/10, resulting in export diversification.

The total government expenditure for the year 2009/10 has shown a 29 percent increment from the previous year 2008/09 (the comparison has been made for 9 months), the report also stated. For the same period, the recurrent expenditure registered an increment of 23 percent. In addition, the share of capital against recurrent has become 55 to 45 percent respectively, indicating that the expenditure policy of the government is focusing more on development of infrastructure and service facilities.

The country level annualized moving average general inflation rate stood at 2.8 percent in June 2010, significantly lower than the corresponding annual average rate of 36.4 percent recorded in June 2009. Similarly, food inflation rate also declined by 49.6 percentage points from its position in June 2009. Non-food components recorded lower inflation rate, but only by few points. In June 2010, about 18.2 percent double digit inflation was recorded in the Non-Food components, showing only 6.2 percent of improvement over that of the 23.8 percent observed in June 2009.

In the review period, year-on-year general inflation stood at 7.3 percent, relatively higher than the 2.7 percent registered in June 2009. The rise in general inflation was due to the increase in the price indices of non-food components. The Non-Food inflation has increased to 19.8 percent compared to the 14.9 percent observed in June 2009.

The export sector witnessed a robust growth. It has recorded 2,003.13 billion USD during the 2009/10 fiscal year, registering a substantial growth of over 38.3 percent against last year's total export revenue. The sector's performance during the year was good, but below the expected target of about 2.7 billion USD.

The export mix is still limited to few primary agricultural products, raw materials and some minerals. Nevertheless, there have been some efforts to diversifying exports during the past decade by including flower and promoting high yielding products like oilseeds and pulses. As a result, the



Courtesy of H.H Steel.

The CBE finances the manufacturing sector thereby supporting the country's development efforts.

share of coffee has declined to around 35% over the period 2000/01–2009/10, from its high share of about 57% during the 90s.

With regard to Money supply, as at end of 2009/10 broad money supply reached Br 104.4 billion, indicating a growth rate of 26.6 percent compared with the same period of last year, owing to the respective increases in all components of broad money. During the same period, the net foreign asset of the country has reached Br 27.2 billion which shows a significant increment (9.2 billion higher) from last year's same period.

In summary, it can be said that the overall performance of the economy was globally positive for the year, while that of the Ethiopian economy had a good performance which enhanced the performance of the financial sector in general and that of the CBE in particular.



3. Financial Position

3.1 Net Interest Income: The net interest income of the Bank rose by 15% from Birr 1.7 billion in 2008/09 to Birr 2 billion in 2009/10, mainly due to a higher growth in interest income over interest expense.

The aggregate interest income during the year 2009/10 grew by 16.3% year-on-year from Birr 2,358 million in 2008/09 to Birr 2,743 million as a result of the sizeable growth of interest income generated from loans and advances (Birr 1,522 million), Treasury bills (Birr 7.8 million), and bonds (Birr 1,212 million).

On the other hand, total interest expenses on deposits reached Birr 744 million, considerably up by 21% against last year's level of Birr 614 million.

Net Interest Income (In millions Birr)

	2009/10	2008/09
Interest Income:	2,743	2,358
Loans and advances	1,521.7	1,463
Government bonds	35.2	38
Treasury bills	7.8	12.3
Placements with other banks	1.4	15.6
Coupon bonds	488.4	827.3
Corporate bond	688.3	-
Interest expense:	744	614
Customers' deposits	741.2	612.8
Deposits from other banks	0.11	-
Interest on fund received	0.45	-
Other	2.4	1.3
Net interest income	1,999	1,744
Net interest margin (%)	3.4	3.8

3.2 Net Interest Margin: The net interest margin for the reporting year was 3.4%, only slightly lower than the preceding year's level of 3.8%.

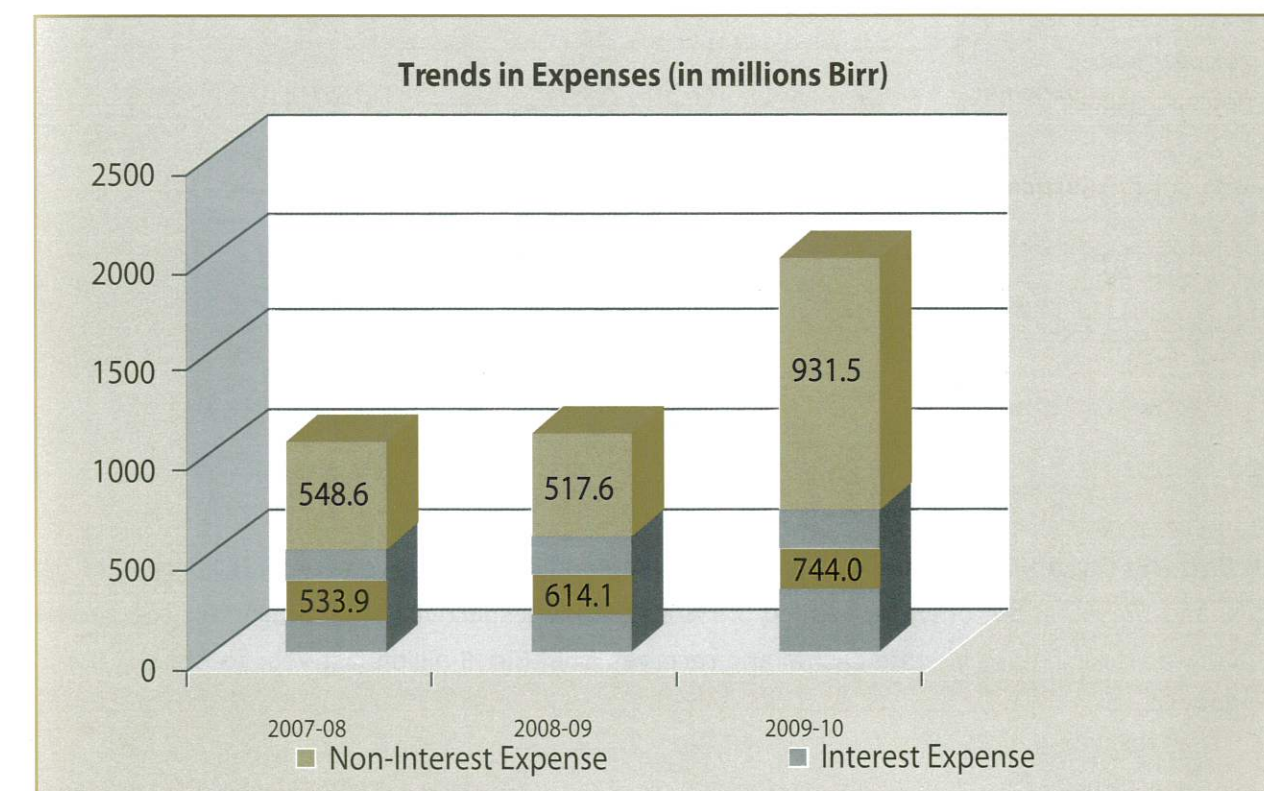
3.3 Non Interest Income: Non interest income for the reviewing period totaled Birr 1.8 billion, up by 17%, compared with the close to Birr 1.5 billion balance of the preceding year. Non interest income still accounts for the sizable share of the total income of the Bank, maintaining a percentage share of 39. The increase in other income, from Birr 125 million in 2008/09 to Birr 145 million in 2009/10 and the growth in service and transaction fees going from Birr 450 million to Birr 521

million and that of commission income from 389 million to 511 million in the same period are the major reasons for the impressive growth of non interest income.

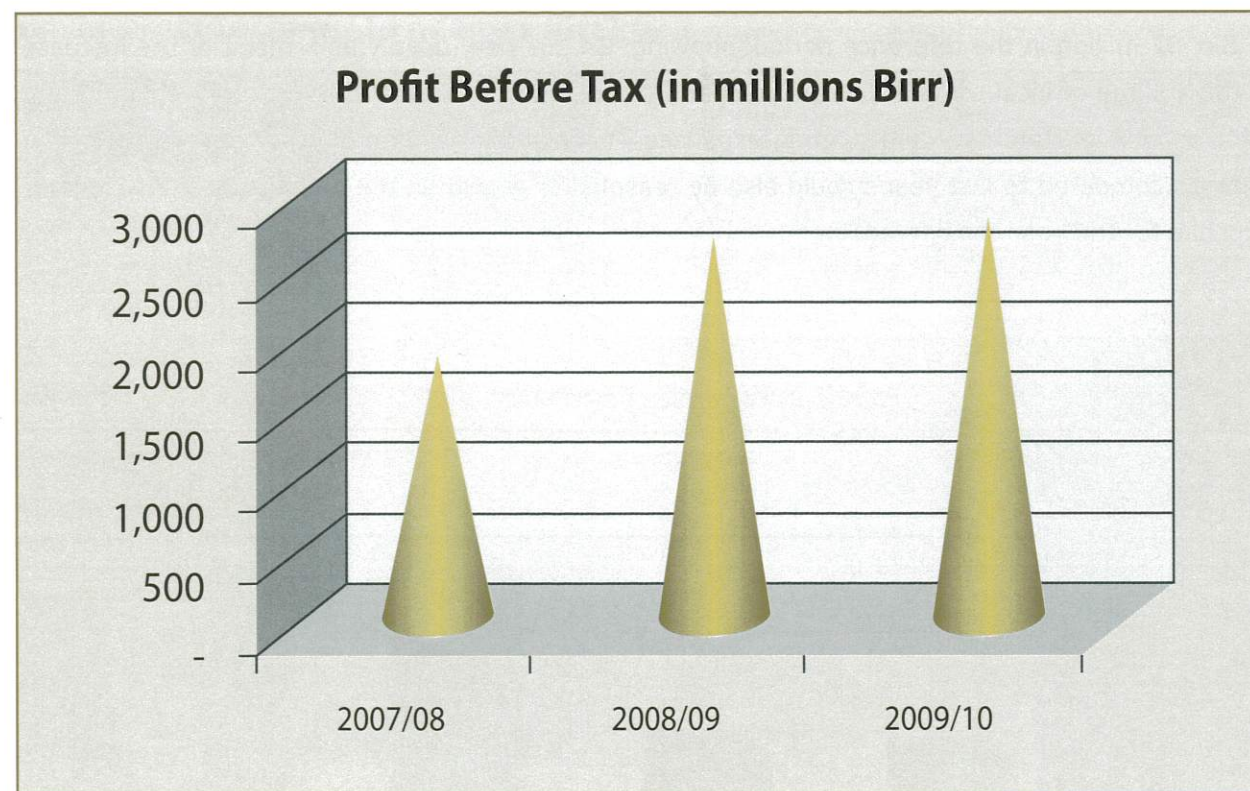
3.4 Operating Expenses: The operating expenses of the Bank stood at Birr 1,676 million at the year-end, up by about birr 544 million (or about 48%) over the preceding year's total of Birr 1,132 million balance due to the rise in interest and non-interest expenses by 21.2% and 79.7%, respectively.

This growth was mainly attributed to the growth in general expenses by 165% of which 54% accounted for of the total non-interest expenses and 46% for salaries and benefits.

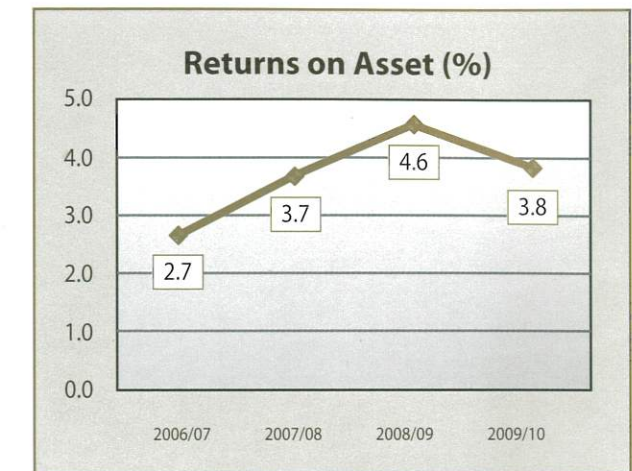
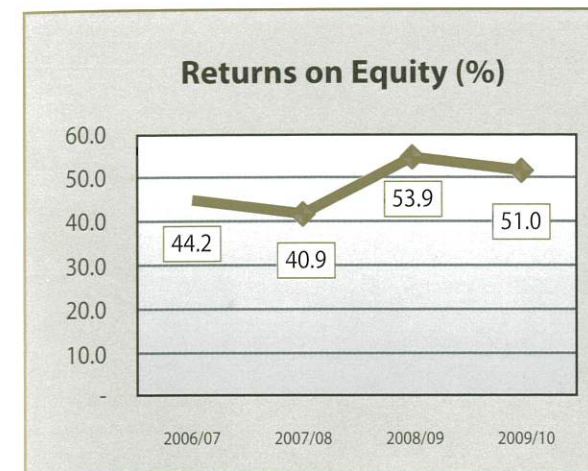
Interest expenses on customers' deposits grew by 20.9%, owing to the increase in volume of saving deposits. On the other hand, the controllable expense increased from Birr 62 million in 2008/09 to Birr 82 million in the reference period, showing 34.1% rise, mainly as a result of the increase in the volume of local transfer transactions and the resulting increase in telephone, telegram and telex as well as stationery and printing expenses. Increased in volume of other businesses of the Bank as compared to last year's could also be reasons for growth in the magnitude of controllable expense for the year considered.



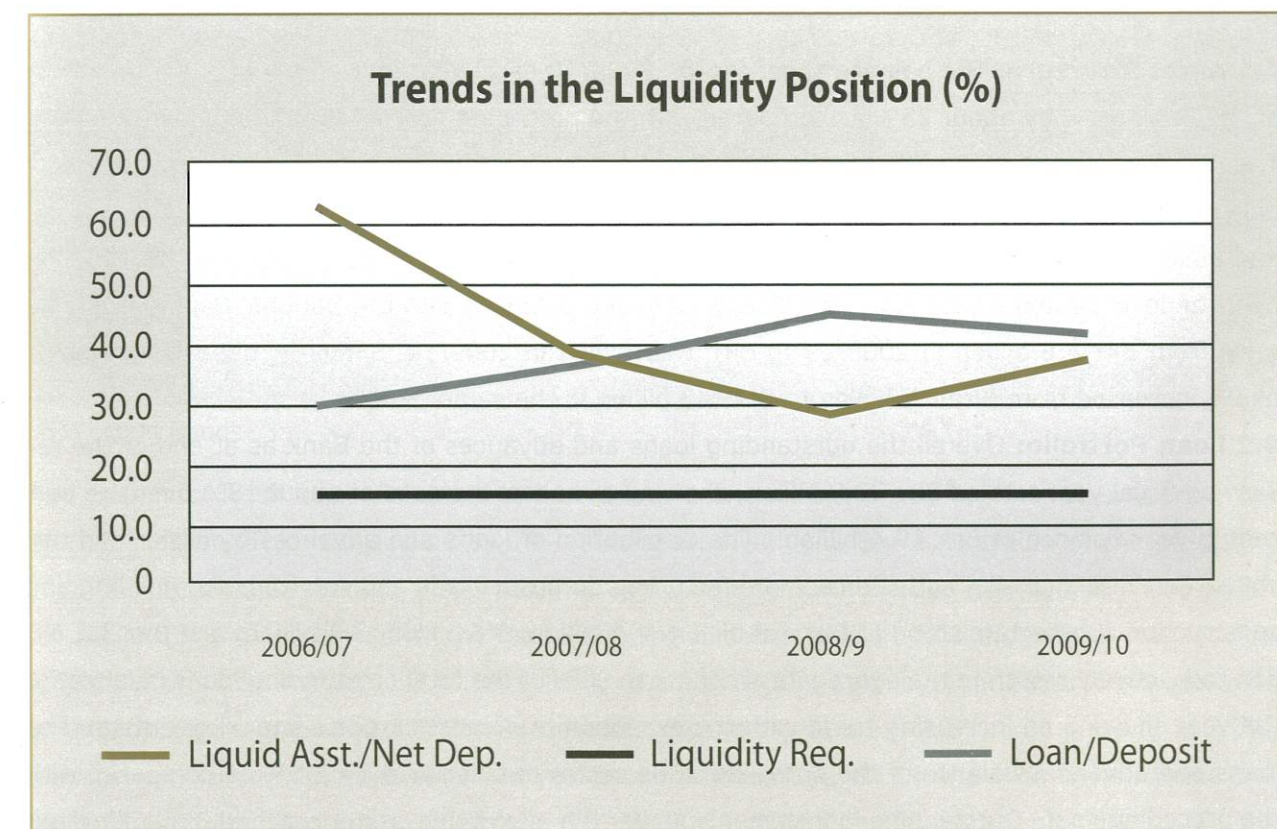
3.5 Operating Profit: The total income of the Bank for fiscal year 2009/10 stood at Birr 4.5 billion, registering a growth of 16.4%, over the corresponding Birr 3.9 billion of last year. This was explained by the remarkable growth in both interest income and non-interest income. The income generated from foreign banking operations was about Birr 1.8 billion, accounting for close to 40% of the total income. The total expenses of the Bank went up from Birr 1,132 million in 2008/09 to Birr 1,676 million in 2009/10, , mainly due to the significant increase in non-interest expenses. The operating profit of the Bank witnessed robust growth for the successive year to reach Birr 2.8 billion, a growth by 3.8% as compared with the preceding fiscal year. The net profit of the Bank stood at about Birr 2 billion against Birr 1.9 billion in the previous year with 2.3% growth. This achievement was made possible by the committed staff of the Bank and the trust customers placed on the Bank.



3.6 Earning Capability: Both returns on assets (ROA) and returns on equity (ROE) dropped from 4.6% and 53.9% in the previous year to 3.8% and 51%, respectively. The reason for the decline in ROE was the increase in state capital and reserves from Birr 5 billion last year to Birr 5.5 billion in 2009/10.



3.7 Liquidity: The loan-to-deposit ratio, which describes the proportion of total deposits extended to financing loan demands, went down from 44.6% in 2008/09 to 42% in 2009/10. This figure, however, took into consideration only commercial loans. It did not include bonds, government securities, etc., which significantly increase the loan-to-deposit ratio. The liquid-assets-to-the-net-deposits ratio also increased from 28.1% to 37.6% a year ago.





The CBE is behind the booming construction sector in Ethiopia.



4. Balance Sheet Analysis

4.1 Asset Structure: The balance sheet for the 2009/10 fiscal year indicates that the total assets of the Bank grew by about 25% as compared with the preceding year and totaled Birr 74.2 billion. This asset base may make CBE one of the biggest banks in sub-Saharan Africa. This was attributable mainly to the growth in cash and balances with the National Bank of Ethiopia by 24.6%, loans and advances to customers by 21.1% and the growth in placement with other banks by 126.7%, over the level posted a year ago. Specifically, cash and balances with the National Bank of Ethiopia grew from Birr 8.8 billion in 2008/09 to Birr 10.9 billion in 2009/10. Similarly, deposit with other banks increased from Birr 1.5 billion to Birr 3.3 billion in the same period

4.2 Loan Portfolio: Overall the outstanding loans and advances of the Bank as at end of the reviewing fiscal year totaled Birr 22.9 billion, showing a modest increase of about 18% over the preceding year balance of Birr 19.4 billion. The distribution of loans and advances by major end use shows that foreign trade, agriculture, manufacturing, domestic trade and services, and building and construction sub-sectors stood at Birr 7.8 billion, 4.4 billion, 3.6 billion, 3.4 billion, and Birr 3.2 billion respectively, which in the aggregate amounts to 98% of the total outstanding loans balance for the year showing an increasing trend with the exception of domestic trade sector. The outstanding loans and advances balance of the domestic trade sector has declined by 2.5% as compared with the preceding year. Outstanding loans balance under the export sub-sector reached Birr 1.7 billion, exhibiting a remarkable growth of 48.3% when compared with Birr 1.1 billion for last year.

Outstanding Loans and Advances by Sector (in millions Birr)

Particulars	2006/07	2007/08	2008/09	2009/10
Loans to customers	9,533	17,162	18,948	22,599
Agriculture	1,842	2,738	3,174	4,354
Manufacturing	1,497	2,053	2,339	3,599
Domestic trade	2,813	3,802	3,528	3,440
Foreign trade	2,769	7,378	7,891	7,770
Building and Construction	550	1,094	1,897	3,245
Personal	62	97	120	190
Loans to banks	231	180	434	262
Total outstanding loans*	9,764	17,342	19,382	22,861

*Excluding Bonds

The amount of fresh loans disbursed to the various economic sectors during the review period was Birr 10.4 billion. This is a decline by 7% as compared with the Birr 11.1 billion of the preceding year. Of the total fresh loans disbursed, the agriculture sector absorbed the highest share of Birr 3.7 billion (36.1%), followed by the manufacturing and domestic trade sector, which claimed Birr 1.6 billion (15.3%) and Birr 1.3 billion (13%), respectively. On year-by-year basis, loans extended to the agriculture, manufacturing and export sub-sectors were up by 48.5%, 123.1% and 115.2%, respectively, when compared with last year's corresponding level. On the other hand, loans disbursed to imports financing dropped from Birr 3,403 million to Birr 436 million, plunging by 87.2%. Fresh loan disbursed to the agriculture sector surged by 48.5%, while that of the manufacturing sector accounted for a 123.1% growth.

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

Particulars	2006/07	2007/08	2008/09	2009/10
Agriculture	1,609	3,534	2,516	3,737
Manufacturing	546	918	711	1,586
Domestic trade	1,406	2,643	1,746	1,348
Export	788	976	368	791
Import	556	4,440	3,403	436
Building and Construction	260	960	1,494	1,121
Personal	67	105	74	66
Disbursement to Banks	0	0	104	0
Mortgage Loans	0	0	676	1,268
Total loans disbursement*	5,232	13,575	11,092	10,353

*Excluding Bonds

Total loan collection stood at Birr 8.9 billion in 2009/10 declining by about 4% from Birr 9.3 billion a year ago. Loans collection from the Domestic trade services, Building and Construction, Import, and other personal loans were major contributors to such poor performance. On the other hand, loans collection from the agriculture, export, collection from banks and mortgage loans increased by 35.6%, 10.5%, 80.1% and 261.4% respectively, as compared with the corresponding balance of the preceding year.

As a result, the ratio of loans-collection-to-loans-disbursement slightly increased from 84.2% in 2008/09 to 86.7%, testifying the fact that the Bank had put the required effort towards the timely collection of loans. Accordingly, the Bank's stock of non-performing loans fell remarkably during the year. This is one of the major achievements the Bank has to be proud of. The non-performing loans ratio has decreased from 3.66% in the preceding year to 1.74%.

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

Particulars	2006/07	2007/08	2008/09	2009/10
Collection from Customers	5,694	7,076	9,203	8,641
Agriculture	1,540	2,553	2,201	2,984
Manufacturing	429	428	554	540
Domestic trade	1,832	1,555	1,981	1,749
Export	627	753	568	627
Import	875	1,426	2,410	1,521
Building and Construction	228	290	1,420	1,166
Personal	53	71	69	54
Other projects	111	-	-	-
Collection from banks	61	59	81	145
Mortgage Loans	-	-	53	193
Total loans collection*	5,755	7,135	9,336	8,979

*Excluding Bonds

4.3 Liabilities: The total liabilities of the Bank for the reviewing period was Birr 68.7 billion, up by Birr 14.3 billion (a 26.3% growth), from the preceding year. The continual growth of customers' deposits and other liabilities were major contributors to this growth status. Customers' deposits stood at Birr 54.6 billion, while deposits due to other banks fell to Birr 872.2 million in 2009/10, a decline by about 26 percent. Mobilized deposits remained the Bank's major source of funding. A relatively large branch network and the public confidence it has won over the last 68 years and the favorable business environment have helped the Bank to command a large deposit base. During the period considered, the Bank's total deposit reached Birr 54.7 billion, claiming a growth of 26%, as compared with that of last year. This was chiefly due to the steady growth in all forms of deposits.

Demand deposits increased by 26.1% when compared with the preceding year. Similarly, savings deposits grew by 23.2% to reach Birr 21.9 billion, and fixed time deposits also increased by 90.7% to Birr 994 million. Accordingly, the ratio of demand deposits to total deposit stood at 58.2%, slightly higher than last year's level of 58%, and that of savings and fixed time deposit were 40% and 1.8%, respectively.

Deposit status exhibited such growth performance, in spite of the prevailing aggressive branch expansion and customer attraction policy of competitor banks and the inflationary situations that

make real deposit rate negative. In the coming fiscal year, the Bank will encourage even higher levels of deposits, as it plans to expand its branch networks to above 300 branches.

Deposit at Year-End (in millions Birr)

Particular	2008/09	2009/10	Growth (%)
Demand Deposit	25,207	31,798	26.1
Savings Deposit	17,761	21,886	23.2
Fixed Time Deposit	521	994	90.7
Total Deposit	43,489	54,678	25.7

4.4 Capital Adequacy: The capital and reserves of the Bank stood at Birr 5.5 billion in 2009/10, indicating a 9.8% growth over the preceding year position of Birr 5 billion. This was because of the decision of the owner to increase its reserve from Birr 1 billion to Birr 1.5 billion in 2009/10. Consequently, the risk-weighted capital adequacy ratio of the Bank reached 17.4%, which was in excess of the required ratio of 8% as per the directives of the National Bank of Ethiopia and the 14% previous year level. The growth in both capital and reserve further reflected the Bank's sound financial strength. The notable rise in the paid-up capital of the Bank will, of course, have wide-ranging effects on the operational performance and international image of the Bank in the years to come. Primarily, it will enable the Bank to easily absorb unexpected losses and meet obligations. Secondly, it will have the effect of reinforcing and maintaining the confidence and trust of foreign banks and customers, for by virtue of being raising its capital the Bank becomes stronger than ever before to mitigate and bear risks.

Capital and Reserves (in millions Birr)

Particular	2009/10	2008/09
Paid-Up Capital	4,000	4,000
Reserves	1,530	1,041
Retained Earnings	9	16
Capital Adequacy Ratio	17.4	14.0



AMBASEL TRADING HOUSE P.L.C.

We Serve the farmer who Feeds the Population !!

Major Products

Import



Chemicals : Agro-2-4D
: Agro-Thoate
: Agro-Set
: Agro-Laxyle

Matchet



Spain Lapajarita Sickles



Agricultural Tools :

- Spain Sickles
- Matchets (England & Spain)
- Hoes & Forks
- Sprayers

Water Pump ,Hoses & Spare parts



Walking Tractors & Accessories



Export



Natural Gum Olibannum



White Sesame Seeds



Dry Ginger



Niger Seeds



Haricot Beans

Wholesale Distribution

Local Distribution



Matador Addis Tyre

Services



Ambasel Building



Sesame Hulling Factory (Gonder)

Address :
Head Office :
Tel . +251-11-466-6145/6147/1197/6550 **Bahir Dar Branch :** +251-58-220-4294
Fax . +251-11-466-6257/6833 **Gonder Branch :** +251-58-114-0794
Website : www.ambaseltrading.com **Dessie Branch :** +251-33-111-4311
E-mail : ambaseltrading@ethionet.et

The CBE supports efforts to increase Ethiopia's foreign currency by financing the export sector.



The Commercial Bank of Ethiopia obtains a great deal of revenue from its international banking business. Its experience of more than six decades in the financial market has enabled it to sustain good relationship with world-class banks throughout the world. This, together with its good resource base and trustworthiness, has helped the Bank to maintain a preeminent position in this business outlet. Hence, in fiscal year 2009/10, the aggregate income earned from foreign banking operations stood at Birr 1,787 million surpassing the level recorded in the preceding year by 38.7%. Accordingly, the foreign banking activities accounted for 36.8% of the total income of the Bank in the reference period.

The value of the letters of guarantee settled rose by 23.1%. The import letters of credit opened and settled during the reporting period went up by 4.5% and 32.7%, respectively, as compared with the previous year; whereas the value of export documents negotiated on a collection basis and at sight recorded percentage growth of 54 and 25, respectively. The value of the export letters of credit received also went up by 74% during the reviewing period.

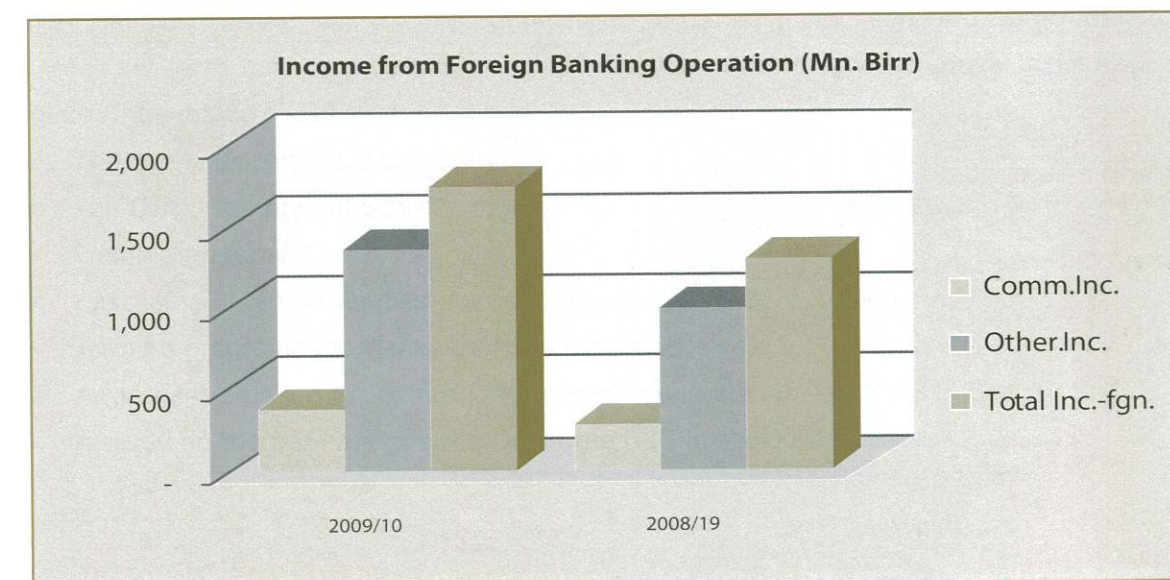
Selected Performance indices of the Foreign Banking Operations (value in Millions Birr)

Particulars	2009/10	2008/09	Year-on-Year % Change
Import L/C Opened	18,468	17,666.0	4.5
Import L/C Settled	16,537	12,458.3	32.7
Export L/C Received	4,717	2,719.2	73.5
Export Doc. Negot. on Collection	1,231	798.4	54.2
Export L/C Negot. at Sight	4,147	3,312.4	25.2
IBC-Received	3,368	1,677.4	100.8
IBC-Settled	2,912	1,659.6	75.5
Guarantees Issued	4,117	9,148	(55.0)
Guarantees Settled	5,342	4,339	23.1
Total	60,839	53,778	13.1



Courtesy of Ethiopian Grain Trade Enterprise.

The CBE is major financier in Ethiopian Economy.





The human resources of the Bank reached 8,726 at the end of fiscal year 2009/10. Compared with last year's figure, this represents an increase of 771 persons (or 9.7%), which is mainly the result of the recruitment of 1,209 new employees.

The CBE believes that its success rests on the quality of its staffs. Accordingly, the Bank has been trying to equip all staff members with the required skills and competencies, and to motivate them in various ways so that they well understand the needs/demands of customers. To this end, 10,131 staff members were participated in various skill upgrading training. In addition to the in-house skill upgrading training programs, the Bank has sponsored a number of staff to attend master programs locally, and relevant short term training abroad.



It is known that the CBE has carried out substantial transformation which is believed to enable it jump into a better position in terms of enhancing the efficiency and quality of service delivery; hence achieving its vision of becoming a world-class commercial bank in the fast changing environment. In this era of stiff competition, improving service quality is a prime strategy for winning the competition and retaining customers. Accordingly, service quality has been greatly improved in every aspect.

During the fiscal year under review the Bank implemented the BPR recommendations in all its business processes. A transformation office was structurally instituted during the financial year with the aim of ensuring sustainable and uniform implementation of the redesigned processes. In this effort, two primary tasks had been carried out; namely, ensuring proper and consistent implementation and running of the redesigned processes, particularly in CATS and TS processes, and Identification of best local practices at the branch/district level for scaling up. In ascertaining whether the CATS and TS processes are being run as per the requirements of the redesigned process, all grade III and IV branches were assessed by a team from the center and grade I and II by a follow-up team at districts. Based on the assessment, continuous improvement measures ranging from proper resource utilization to minimizing knowledge gaps on the redesigned processes were undertaken. Simultaneous with the implementation follow-up, identification and scaling-up of best and proven practices had been initiated.

Another significant event was the Institutionalizing of the balanced scorecard framework; one of the issues set forth for accomplishment during the year. Accordingly, landmark tasks have been completed, the major ones being:

- The five-year corporate scorecard;
- The Corporate Annual Scorecard;
- Training materials;
- Cascading of team members for each process physical cascading;
- Training programs for managerial and core staff;
- Awareness creation tasks through the Bank's website and the 'CBE Informer'; and
- A study on the permanent structure of the BSC in the bank



ዘርፈ ብዙ የዓለም አቀፍ የገንዘብ መቀበያ
አማራጮች ያሉት ባንክ !

*A Bank with lots of choices to
receive money from abroad*



Auditor's Report

2009/10



የኢትዮጵያ ምርመራ አገልግሎት ኮርፖሬሽን
AUDIT SERVICES CORPORATION

ፖ.ሣ.ቁ. } 5720
P.O. Box }

ስልክ } 551 52 22
Tel. }

ፋክስ ቁ. } 551 30 83
Fax No. }

አዲስ አበባ ADDIS ABABA

**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 2010 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

7 February 2011

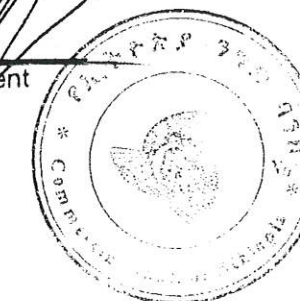
COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	Notes	Birr	2009 Birr
ASSETS			
Cash and bank balances with National Bank of Ethiopia and Bank of Southern Sudan - Juba	2	10,910,150,663	8,758,841,743
Investments in Government securities	3	4,818,302,962	5,410,003,882
Coupon bonds with Development Bank of Ethiopia and regional states	4	11,388,882,454	8,029,981,487
Term bonds	5	16,600,000,000	11,800,000,000
Placements with other banks	6	3,287,389,410	1,450,059,940
Loans and advances to banks	7	262,315,797	434,066,266
Loans and advances to customers	8(a)	22,154,912,732	18,298,711,183
Other advances	9	1,155,577,090	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	3,026,352,631	3,332,222,745
Property and equipment	14	621,170,497	392,705,902
		<u>74,230,727,345</u>	<u>59,436,189,672</u>
LIABILITIES			
Deposits due to other banks	15	872,194,081	1,171,767,848
Customers' deposits	16	54,677,663,884	42,308,586,490
Taxation	17	830,925,110	786,071,432
State dividend payable	18	1,475,666,807	1,951,523,552
Other liabilities	19	10,801,305,088	8,149,589,632
		<u>68,657,754,970</u>	<u>54,367,538,954</u>
		<u>5,572,972,375</u>	<u>5,068,650,718</u>
NET ASSETS			
		<u>1,571,935</u>	<u>1,225,275</u>
MINORITY INTEREST			
CAPITAL AND RESERVES			
Capital	20	4,000,000,000	4,000,000,000
Legal reserve	21	1,529,695,764	1,037,560,542
Retained earnings		9,112,882	15,772,770
Gain on currency fluctuation from investment in foreign subsidiary - Juba		10,176,909	-
		<u>5,548,985,555</u>	<u>5,053,333,312</u>
DEFERRED TAX LIABILITY	1f, 22	22,414,885	14,092,131
		<u>5,572,972,375</u>	<u>5,068,650,718</u>

[Signature]
Vice President Finance

Addis Ababa, 7 February 2011

[Signature]
President



The notes on pages 40 to 69 form an integral part of these financial statements.

COMMERCIAL BANK OF ETHIOPIA
BANK STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	Notes	Birr	009 Birr
ASSETS			
Cash and bank balances with National Bank of Ethiopia and Bank of Southern Sudan Juba	2	10,803,250,278	8,758,838,843
Investments in Government securities	3	4,818,302,962	5,410,003,882
Coupon bonds with Development Bank of Ethiopia and regional states	4	11,388,882,454	8,029,981,487
Term bonds	5	16,600,000,000	11,800,000,000
Placements with other banks	6	3,302,660,858	1,450,059,940
Loans and advances to banks	7	262,315,797	434,066,266
Loans and advances to customers	8(a)	22,154,912,732	18,298,711,183
Other advances	9	1,155,577,090	1,523,923,415
Investment in subsidiaries	10	74,635,555	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	3,005,678,896	3,307,084,560
Property and equipment	14	616,876,665	391,011,620
		<u>74,186,911,338</u>	<u>59,411,719,247</u>
LIABILITIES			
Deposits due to other banks	15	881,369,340	1,171,767,848
Customers' deposits	16	54,646,211,788	42,317,642,690
Taxation	17	828,888,944	784,887,282
State dividend payable	18	1,475,666,807	1,951,523,552
Other liabilities	19	10,799,772,860	8,131,095,369
		<u>68,631,909,739</u>	<u>54,356,916,741</u>
NET ASSETS		<u>5,555,001,599</u>	<u>5,054,802,506</u>
CAPITAL AND RESERVES			
Capital	20	4,000,000,000	4,000,000,000
Legal reserve	21	1,528,465,443	1,036,576,508
Retained earnings		4,241,827	4,241,827
		<u>5,532,707,270</u>	<u>5,040,818,335</u>
DEFERRED TAX LIABILITY	1f,22	22,294,329	13,984,171
		<u>5,555,001,599</u>	<u>5,054,802,506</u>

The notes on pages 40 to 69 form an integral part of these financial statements.

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	CBE Birr	CN Birr	SSJ Birr	Total Birr	2009 Birr
INTEREST INCOME	1e,23	2,742,683,924	131,077	-	2,742,815,001	2,357,879,167
INTEREST EXPENSE	24	(744,006,793)	-	(120,715)	(744,127,508)	(614,089,057)
NET INTEREST INCOME/(LOSS)		<u>1,998,677,131</u>	<u>131,077</u>	<u>(120,715)</u>	<u>1,998,687,493</u>	<u>1,743,790,110</u>
IMPAIRMENT LOSSES ON:-						
SUNDRY DEBTORS		(5,161,756)	-	-	(5,161,756)	(5,016,872)
ACQUIRED PROPERTY		(5,352,553)	-	-	(5,352,553)	(2,865,811)
		<u>(10,514,309)</u>	<u>-</u>	<u>-</u>	<u>(10,514,309)</u>	<u>(7,882,683)</u>
NET INTEREST INCOME/(LOSS) AFTER IMPAIRMENT LOSSES ON SUNDRY DEBTORS AND ACQUIRED PROPERTY		<u>1,988,162,822</u>	<u>131,077</u>	<u>(120,715)</u>	<u>1,988,173,184</u>	<u>1,735,907,427</u>
NON INTEREST INCOME	1e, 25	1,724,990,918	17,401,417	8,995,860	1,751,388,195	1,501,764,508
NON INTEREST EXPENSES	26	(908,398,896)	(10,031,043)	(13,033,479)	(931,463,418)	(517,646,870)
PROFIT/(LOSS) BEFORE TAX		<u>2,804,754,844</u>	<u>7,501,451</u>	<u>(4,158,334)</u>	<u>2,808,097,961</u>	<u>2,720,025,065</u>
INCOME TAX EXPENSE	27	(837,199,102)	(2,229,058)	-	(839,428,160)	(795,789,603)
PROFIT/(LOSS) AFTER TAX		<u>1,967,555,742</u>	<u>5,272,393</u>	<u>(4,158,334)</u>	<u>1,968,669,801</u>	<u>1,924,235,462</u>
MINORITY INTEREST		-	(346,660)	-	(346,660)	(197,061)
PROFIT/(LOSS) FOR THE YEAR		<u>1,967,555,742</u>	<u>4,925,733</u>	<u>(4,158,334)</u>	<u>1,968,323,141</u>	<u>1,924,038,401</u>

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Capital Birr	Legal reserve Birr	Retained earnings Birr	Gain on currency fluctuation on investment In foreign subsidiary Birr	Total equity Birr
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
Transfer to capital CN	-	-	(7,181,000)	-	(7,181,000)
Net profit for the year	-	-	1,968,323,141	-	1,968,323,141
Transfer to legal reserve	-	492,135,222	(492,135,222)	-	-
Transfer to state dividend	-	-	(1,475,666,807)	-	(1,475,666,807)
Gain on currency fluctuation on investment	-	-	-	10,176,909	10,176,909
Balance at 30 June 2010	4,000,000,000	1,529,695,764	9,112,882	10,176,909	5,548,985,555

The notes on pages 40 to 69 form an integral part of these financial statements.

COMMERCIAL BANK OF ETHIOPIA
BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Capital Birr	Legal reserve Birr	Retained earnings Birr	Total equity Birr
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
Net profit for the year	-	-	1,967,555,742	1,967,555,742
Transfer to legal reserve	-	491,888,935	(491,888,935)	-
Transfer to state dividend	-	-	(1,475,666,807)	(1,475,666,807)
Balance at 30 June 2010	4,000,000,000	1,528,465,443	4,241,827	5,532,707,270

The notes on pages 40 to 69 form an integral part of these financial statements.

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Birr	Birr	2009 Birr
Cash outflow from operating activities	28(a)		6,253,924,051	(2,334,724,502)
Cash flow from investing activities				
Purchase of property and equipment		(287,429,236)		(133,020,293)
Proceeds on disposal of property and equipment		4,289,334		2,169,520
Investment in subsidiary CN		(7,181,000)		-
Gain from foreign currency fluctuation from investment in foreign subsidiary - Juba		10,176,909		-
Net cash outflow from investing activities			(280,143,993)	(130,850,773)
Cash flow from financing activities				
Dividends paid to Ministry of Finance and Economic Development			(1,951,523,551)	(510,298,863)
Increase/(decrease) in cash and cash equivalents	28(b)		4,022,256,507	(2,975,874,138)
Cash and cash equivalents at 30 June 2009	28(b)		2,268,215,982	5,244,090,120
Cash and cash equivalents at 30 June 2010	28(b)		6,290,472,489	2,268,215,982

The notes on pages 40 to 69 form an integral part of these financial statements.

COMMERCIAL BANK OF ETHIOPIA
BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Birr	Birr	2009 Birr
Cash inflow/(outflow) from operating activities	29(a)		6,223,259,531	(2,335,253,271)
Cash flow from investing activities				
Purchase of property and equipment		(284,151,348)		(132,493,524)
Proceeds on disposal of property and equipment		4,286,134		2,169,520
Investment in subsidiary -CBE – SSJ		(63,234,555)		
" " " - CN		(7,181,000)		-
Net cash outflow from investing activities			(350,280,769)	(130,324,004)
Cash flow from financing activities				
Dividends paid to Ministry of Finance and Economic Development			(1,951,523,551)	(510,298,863)
Increase/(decrease) in cash and equivalents	29(b)		3,921,455,211	(2,975,876,138)
Cash and cash equivalents at 30 June 2009	29(b)		2,268,213,082	5,244,089,220
Cash and cash equivalents at 30 June 2010	29(b)		6,189,668,293	2,268,213,082

The notes on pages 40 to 69 form an integral part of these financial statements.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2010

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 subsidiary 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 subsidiaries for the year ended 30 June 2010. 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 date of statement of financial position.
- ii) All major financial assets are measured at fair value.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

c) Valuation of assets and liabilities (continued)

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

	%
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 statement of financial position 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.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

e) Income recognition

Income is recognized in the period in which it is earned. When a lending account becomes nonperforming, 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 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 subsidiaries 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 statement of financial position of the Bank and its subsidiaries.

i) Abbreviations

CBE stands for Commercial Bank of Ethiopia, CN stands for Commercial Nominees Private Limited Company and SSJ stands for CBE - Southern Sudan Juba Branch.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

**2. CASH AND BALANCES WITH NATIONAL BANK OF ETHIOPIA (NBE) AND
BANK OF SOUTHERN SUDAN - JUBA (SSJ)**

	CBE Birr	CN Birr	SSJ Birr	Total Birr	2009 Birr
Group and Company					
Cash on hand	1,528,145,542	1,700	16,920,428	1,545,067,670	1,011,212,620
Balances with NBE and SSJ					
- Cash reserve	8,650,000,000	-	-	8,650,000,000	6,950,000,000
- Payment and settlement account	625,104,736	-	89,978,257	715,082,923	797,629,123
	<u>10,803,250,278</u>	<u>1,700</u>	<u>106,898,685</u>	<u>10,910,150,663</u>	<u>8,758,841,743</u>

The cash reserve is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2010, 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	2009 Birr
Group and Company		
Treasury bills	1,497,297,280	-
Maturing within 90 days	-	1,667,733,538
Maturing after 90 days	<u>1,497,297,280</u>	<u>1,667,733,538</u>
Government bonds	-	272,207,350
Maturing within 90 days	36,058,329	163,280,777
Maturing after 90 days and within one year	3,030,525,479	3,056,782,217
Maturing after one year	254,421,874	250,000,000
Overdue	<u>3,321,005,682</u>	<u>3,742,270,344</u>
	<u>4,818,302,962</u>	<u>5,410,003,882</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

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 over a period of ten years. 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	2009 Birr
Development Bank of Ethiopia		
Overdue	46,433,999	190,863,553
Maturing within 90 days	55,565,970	13,011,387
Maturing after 90 days and within one year	256,297,292	132,617,030
Maturing after one year	<u>3,845,305,835</u>	<u>1,494,765,940</u>
	4,203,603,096	1,831,257,910
Coupon bonds with regional states		
Maturing after one year	<u>7,185,279,358</u>	<u>6,198,723,577</u>
	<u>11,388,882,454</u>	<u>8,029,981,487</u>

5. TERM BONDS

Group and Company

Represent non-negotiable 5% secured bonds worth Birr 16,600,000,000 bought from Ethiopian Electric Power Corporation. Interest is to be repaid semi-annually while the principal is to be repaid in annual instalments over a period of ten years after a grace period of three years.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

6. PLACEMENTS WITH OTHER BANKS

	CBE Birr	SSJ Birr	Total Birr	2009 Birr
Group and Company				
Due within 90 days	3,284,067,074	3,322,336	3,287,389,410	1,450,059,940
Placement with SSJ	<u>18,593,784</u>	<u>(18,593,784)</u>	-	-
	<u>3,302,660,858</u>	<u>(15,271,448)</u>	<u>3,287,389,410</u>	<u>1,450,059,940</u>

7. LOANS AND ADVANCES TO BANKS

Group and Company	Birr	2009 Birr
Construction and Business Bank Share Company	18,118,036	20,773,903
Development Bank of Ethiopia	66,654,192	135,149,816
Micro Financial Institutions	<u>177,543,569</u>	<u>278,142,547</u>
	<u>262,315,797</u>	<u>434,066,266</u>

8. LOANS AND ADVANCES TO CUSTOMERS

Group and Company	Birr	2009 Birr
a) Term and merchandise loans	19,755,819,680	16,501,438,314
Overdrafts	1,667,134,549	1,285,616,264
Advances on import and export bills	1,005,381,040	788,025,196
Loans and advances in legal	<u>170,741,392</u>	<u>372,994,776</u>
	22,599,076,661	18,948,074,550
Less: Provision for impairment losses	<u>(444,163,929)</u>	<u>(649,363,367)</u>
	<u>22,154,912,732</u>	<u>18,298,711,183</u>
Repayable on demand	2,251,244,997	1,567,924,613
Within one year	10,572,819,318	9,639,005,766
One to five years	4,229,849,530	3,509,402,511
Over five years	<u>5,100,998,887</u>	<u>3,582,378,293</u>
	<u>22,154,912,732</u>	<u>18,298,711,183</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

b) Movement in provision for impairment losses

	Birr	2009 Birr
At 30 June 2009	649,363,367	1,067,374,371
Amounts written off during the year	(205,199,438)	(418,011,004)
At 30 June 2010	<u>444,163,929</u>	<u>649,363,367</u>

c) Type of loans and advances

	Birr	2009 Birr
Agriculture	4,354,093,521	3,173,545,159
Manufacturing	3,599,296,770	2,338,550,496
Domestic trade and services	3,439,825,596	3,527,626,983
Foreign trade	7,769,705,181	7,891,377,500
Building and construction	3,245,656,594	1,896,884,635
Personal loans	<u>190,498,999</u>	<u>120,089,777</u>
	<u>22,599,076,661</u>	<u>18,948,074,550</u>

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 state ment of financial position. As at 30 June 2010 such interest amounted to Birr 229,344,993 (2009 Birr1,093,536,223).

9. OTHER ADVANCES

a) These are made of the following:-

	Birr	2009 Birr
Ethiopian Grain Trade Enterprise (EGTE)	1,155,577,090	1,462,609,658
Addis Ababa City Government	-	61,313,757
	<u>1,155,577,090</u>	<u>1,523,923,415</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

9. OTHER ADVANCES (continued)

- 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 during the year from the collection of down payment from the owners of the condominiums.

10. INVESTMENT IN SUBSIDIARY

		Birr	2009 Birr
Commercial Nominees Private Limited Company	93.425%	11,401,000	4,220,000
CBE Southern Sudan Limited - Juba Branch	100.00%	<u>63,234,555</u>	-
		<u>74,635,555</u>	<u>4,220,000</u>

- i) The capital of CN has been raised from Birr 4,517,000 to Birr 12,204,000 effective July 2009. Accordingly, CBE's shareholding has increased from Birr 4,220,000 to Birr 11,401,000.
- ii) 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 previous fiscal year on 22 June 2009, the partial paid up capital and other preoperational costs totaling Birr 63,234,555 have been shown under investment.
- iii) The interest in the above undertaking is carried at cost.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

11. INVESTMENT IN ASSOCIATES

a) Group

		Birr	2009 Birr
Specialized Financial and Promotional Institution	49.875%	2,120,021	2,120,021
Universal Investors Company	32.35%	785,037	785,037
		<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.

b) Company

		Birr	2009 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	2009 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	244,114	244,114
	<u>2,768,051</u>	<u>2,768,051</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

13. OTHER ASSETS

Group	Birr	2009 Birr
Balance due from Commercial Bank of Eritrea	1,114,935,461	1,188,777,247
Uncleared effects	764,322,450	1,286,883,198
Interest receivable	498,843,546	203,140,242
Acquired properties	212,964,983	334,391,796
Stationery and other supplies	93,901,030	50,436,734
Staff imprests and prepayments	82,766,617	44,694,412
Other receivables	292,174,756	190,237,003
Ethiopian Millennium comemorable silver and gold coins	2,605,277	2,397,600
Investment in CBE Southern Sudan Limited	-	64,216,712
	<u>3,062,514,120</u>	<u>3,365,174,944</u>
Less: Provision for doubtful debts	(36,161,489)	(32,952,199)
	<u>3,026,352,631</u>	<u>3,332,222,745</u>
Company		
Balance due from Commercial Bank of Eritrea (ii-below)	1,114,935,461	1,188,777,247
Uncleared effects	764,322,450	1,286,883,198
Interest receivable	498,843,546	203,140,242
Acquired properties (i-below)	212,964,983	334,391,796
Stationery and other supplies	93,836,295	50,381,555
Staff imprests and prepayments	70,346,229	25,935,801
Other receivables	283,986,144	183,912,608
Ethiopian Millennium comemorable silver and gold coins	2,605,277	2,397,600
Investment in CBE Southern Sudan Limited	-	64,216,712
	<u>3,041,840,385</u>	<u>3,340,036,759</u>
Less: Provision for doubtful debts	(36,161,489)	(32,952,199)
	<u>3,005,678,896</u>	<u>3,307,084,560</u>

- 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 30 June 2010. The guaranteed amount is Birr 1,230,978,839. However, the guarantee period has been extended to June 2015 based on the letter of the Ministry of Finance and Economic Development dated 30 Nehassie 2002 (5 September 2010), ref. 100-02-00/1.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

14. PROPERTY AND EQUIPMENT

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

	Balance at 30 June 2009 Birr	Additions Birr	Disposals/ Transfers/ Adjustments Birr	Balance at 30 June 2010 Birr
Group				
COST				
Buildings	286,748,484	18,665,493	8,288,648	313,702,625
Motor vehicles	177,256,686	88,844,974	(5,264,487)	260,837,173
Computers and accessories	120,899,950	21,913,844	-	142,813,794
Fixtures, fittings & equipment	156,419,836	70,487,296	(157,968)	226,749,164
Work in progress	61,100,801	87,517,629	(7,768,453)	140,849,977
	<u>802,425,757</u>	<u>287,429,236</u>	<u>(4,902,260)</u>	<u>1,084,952,733</u>
DEPRECIATION				
Buildings	165,494,833	12,065,681	-	177,560,514
Motor vehicles	82,910,447	23,504,059	(5,233,756)	101,180,750
Computers and accessories	40,415,656	8,063,397	-	48,479,053
Fixtures, fittings & equipment	120,898,919	15,677,318	(14,318)	136,561,919
	<u>409,719,855</u>	<u>59,310,455</u>	<u>(5,248,074)</u>	<u>463,782,236</u>
NET BOOK VALUE	<u>392,705,902</u>			<u>621,170,497</u>
Company				
COST				
Buildings	286,748,485	18,665,493	8,288,648	313,702,625
Motor vehicles	176,279,817	88,605,085	(5,264,487)	259,620,415
Computers and accessories	119,867,650	21,356,332	-	141,223,982
Fixtures, fittings & equipment	155,193,586	68,006,809	(143,130)	223,057,265
Work in progress	61,100,800	87,517,629	(7,768,453)	140,849,977
	<u>799,190,338</u>	<u>284,151,348</u>	<u>(4,887,422)</u>	<u>1,078,454,264</u>
DEPRECIATION				
Buildings	165,494,833	12,065,681	-	177,560,514
Motor vehicles	82,359,592	23,333,055	(5,233,756)	100,458,891
Computers and accessories	39,989,509	7,910,455	-	47,899,964
Fixtures, fittings & equipment	120,334,784	15,323,446	-	135,658,230
	<u>408,178,718</u>	<u>58,632,637</u>	<u>(5,233,756)</u>	<u>461,577,599</u>
NET BOOK VALUE	<u>391,011,620</u>			<u>616,876,665</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

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

Group and Company

	CBE Birr	SSJ Birr	Total Birr	2009 Birr
Payable to other banks	872,194,081	-	872,194,081	1,171,767,848
Payable to CBE - SSJ	9,175,259	(9,175,259)	-	-
	<u>881,369,340</u>	<u>(9,175,259)</u>	<u>872,194,081</u>	<u>1,171,767,848</u>

16. CUSTOMERS' DEPOSITS

Group	Birr	2009 Birr
Payable on demand		
Private sector and retail customers	11,127,046,798	9,540,817,540
Local and Central Government	13,045,508,045	9,747,656,572
Public enterprises and agencies	7,625,142,501	4,738,959,598
	<u>31,797,697,344</u>	<u>24,027,433,710</u>
Savings deposits		
Private sector and retail customers	20,727,710,397	17,128,460,547
Public enterprises and agencies	1,158,167,595	631,480,974
	<u>21,885,877,992</u>	<u>17,759,941,521</u>
Term deposits		
Private sector and retail customers	669,743,660	274,103,179
Public enterprises and agencies	324,344,888	994,088,548
	<u>247,108,080</u>	<u>521,211,259</u>
	<u>54,677,663,884</u>	<u>42,308,586,490</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

16. CUSTOMERS' DEPOSITS (continued)

	Birr	2009 Birr
Company		
Payable on demand		
Private sector and retail customers	11,112,421,489	9,548,656,809
Local and Central Government	13,045,508,045	9,747,656,572
Public enterprises and agencies	7,625,142,501	4,738,959,598
	<u>31,783,072,035</u>	<u>24,035,272,979</u>
Savings deposits		
Private sector and retail customers	20,710,883,610	17,129,677,478
Public enterprises and agencies	1,158,167,595	631,480,974
	<u>21,869,051,205</u>	<u>17,761,158,452</u>
Term deposits		
Private sector and retail customers	669,743,660	274,103,179
Public enterprises and agencies	324,344,888	247,108,080
	<u>994,088,548</u>	<u>521,211,259</u>
	<u>54,646,211,788</u>	<u>42,317,642,690</u>

17. INCOME TAX

i) The movement in the account is as follows:-

	Tax on rental income Birr	Tax on other operations Birr	Total Birr
Group			
Balance as at 30 June 2009	1,083,471	784,987,961	786,071,432
Add: Tax expense of current year	857,805	830,247,601	831,105,406
	<u>1,941,276</u>	<u>1,615,235,562</u>	<u>1,617,176,838</u>
Less: Payments made during the year:			
- Direct payments	1,083,471	784,987,961	786,071,432
- Withholding tax	-	180,296	180,296
	<u>1,083,471</u>	<u>785,168,257</u>	<u>786,251,728</u>
	<u>857,805</u>	<u>830,067,305</u>	<u>830,925,110</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

17. INCOME TAX (continued)

	Tax on rental income Birr	Tax on other operations Birr	Total Birr
Company			
Balance at 30 June 2009	1,083,471	783,803,811	784,887,282
Add: Tax expense of current year (note 17(ii))	857,805	828,031,139	828,888,944
	<u>1,941,276</u>	<u>1,611,834,950</u>	<u>1,613,776,226</u>
Less: Payments made during the year			
- Direct payments	1,083,471	783,803,811	784,887,282
	<u>857,805</u>	<u>828,031,139</u>	<u>828,888,944</u>

ii) 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 Proc lamation 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	2009 Birr
Rental income		3,606,107
Expenses		
Depreciation	721,835	
Insurance	13,115	
Land and building tax	<u>11,809</u>	
		<u>746,759</u>
		2,859,348
		x 30%
Tax expense (note 17(i))		<u>857,805</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

18. STATE DIVIDEND PAYABLE

	Birr	2009 Birr
Balance as at 30 June 2009	1,951,523,551	1,020,893,667
Current year appropriation	<u>1,475,666,807</u>	<u>1,440,928,748</u>
	3,427,190,358	2,461,822,415
Less: Payment to Ministry of Finance and Economic Development	1,951,523,551	1,475,666,807
	<u>510,298,863</u>	<u>1,951,523,552</u>

19. OTHER LIABILITIES

	Birr	2009 Birr
Group		
Margin accounts and deposits for guarantees	2,795,580,173	2,617,770,015
Interbranch clearing	5,610,437,956	3,162,359,155
Bills payable	631,660,646	337,812,066
Blocked accounts	207,936,758	242,872,358
Exchange commission payable to National Bank of Ethiopia	445,052,727	164,574,694
Accrued leave pay	48,924,345	41,833,414
Taxes payable	12,571,966	7,593,208
Pension contribution payable	2,134,590	1,784,535
Miscellaneous payables and accruals	<u>1,047,005,927</u>	<u>1,572,990,187</u>
	<u>10,801,305,088</u>	<u>8,149,589,632</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

19. OTHER LIABILITIES (continued)

	Birr	2009 Birr
Company		
Margin accounts and deposits for guarantees	2,795,443,499	2,617,770,015
Interbranch accounts	5,610,437,956	3,162,359,155
Bills payable	631,660,646	337,812,066
Blocked accounts	207,936,758	242,872,358
Exchange commission payable to National Bank of Ethiopia	445,052,727	164,574,694
Accrued leave pay	48,924,345	41,833,414
Taxes payable	12,133,137	7,511,049
Pension contribution payable	2,134,589	1,784,535
Miscellaneous payables and accruals	<u>1,046,049,203</u>	<u>1,554,578,083</u>
	<u>10,799,772,860</u>	<u>8,131,095,369</u>

20. CAPITAL

- 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.
- 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 2009	1,037,560,542	1,036,576,508
Current year appropriation	<u>492,135,222</u>	<u>491,888,935</u>
	<u>1,529,695,764</u>	<u>1,528,465,443</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 2010

22. DEFERRED TAX LIABILITY

	Birr	2009 Birr
Difference in tax base of property and equipment and their value for accounting purposes:-		
Group	22,414,885	14,092,131
Company	22,294,329	13,984,171

23. INTEREST INCOME

	CBE Birr	CN Birr	SSJ Birr	Total Birr	2009 Total Birr
Loans and advances	1,521,687,734	-	-	1,521,687,734	1,462,991,693
Government bonds	35,181,967	-	-	35,181,967	38,007,874
Treasury bills	7,837,913	-	-	7,837,913	12,299,137
Placements with other banks	1,317,607	131,077	-	1,448,684	15,563,393
Coupon bonds	488,397,980	-	-	488,397,980	827,289,813
Interest earned on corporate bond	688,260,723	-	-	688,260,723	-
Interest earned on fund surrendered	-	-	-	-	1,727,257
	2,742,683,924	131,077	-	2,742,815,001	2,357,879,167

24. INTEREST EXPENSE

	CBE Birr	CN Birr	SSJ Birr	Total Birr	2009 Total Birr
Customers' deposits	741,088,979	-	120,715	741,209,694	612,770,723
Deposits from other banks	107,319	-	-	107,319	20
Interest on fund received	453,452	-	-	453,452	-
Other	2,357,043	-	-	2,357,043	1,318,314
	744,006,793	-	120,715	744,127,508	614,089,057

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

25. NON INTEREST INCOME

	CBE Birr	CN Birr	SSJ Birr	Total Birr	2009 Total Birr
Write back of creditors accounts	36,358,216	-	-	36,358,216	4,252,465
Commission income	509,889,737	-	1,917,008	511,806,745	388,959,355
Service and transaction fees	503,610,964	17,300,282	546,682	521,457,928	450,118,628
Gains less losses arising from dealing in foreign currencies	496,094,994	-	6,529,356	502,624,350	515,885,712
Rental income	11,721,125	-	-	11,721,125	11,220,279
Dividend income	7,181,000	-	-	7,181,000	-
Collection from provision held	11,159,397	-	-	11,159,397	3,813,376
Gain on disposal of property and equipment	4,201,334	2,680	-	4,204,014	2,150,021
Other income	144,774,151	98,455	2,814	144,875,420	125,364,672
	1,724,990,918	17,401,417	8,995,860	1,751,388,195	1,501,764,508

26. NON INTEREST EXPENSES

	CBE Birr	CN Birr	SSJ Birr	Total Birr	2009 Total Birr
Salaries and employee benefits	421,451,779	5,050,474	4,662,771	431,165,024	328,640,864
Depreciation	58,632,637	341,062	319,947	59,293,646	39,304,596
Postage and telecommunication	37,108,154	279,336	122,599	37,510,089	27,438,017
Occupancy expenses	23,070,106	1,176,740	4,057,154	28,304,000	17,281,304
Stationery and office supplies	21,002,386	485,205	173,097	21,660,688	15,032,296
Travel costs	12,201,239	105,622	803,605	13,110,466	7,509,759
Service charge	3,980,503	1,753,939	515,687	6,250,129	3,674,560
Advertising and publicity	8,823,909	102,300	378,961	9,305,170	4,452,643
Motor vehicle running costs	11,090,908	128,182	92,584	11,311,674	8,683,033
Legal and consultancy fees	2,675,995	9,406	295,293	2,980,694	2,322,078
Repairs and maintenance	7,279,971	46,028	202,059	7,528,058	4,770,746
Insurance	3,921,037	197,375	12,948	4,131,360	3,681,091
Water and electricity	6,277,292	33,867	295,932	6,607,091	3,997,080
Board fees	360,000	51,700	-	411,700	297,810
Audit fee	345,000	8,000	61,319	414,319	353,060
Direct write off of sundry debtors	4,312,111	-	-	4,312,111	307,862
Land and building tax	930,392	-	-	930,392	705,099
Electronic data processing	2,106,768	-	560,451	2,667,219	418,201
Impairment loss on government guarantee	116,044,618	-	-	116,044,618	-
Penalty on delayed payment of taxes	47,963,512	-	-	47,963,512	-
Service charge for bank guarantee	-	177,610	-	177,610	73,512
Grants and contributions	-	-	-	-	5,000
Other expenses	118,820,579	84,197	479,072	119,383,848	48,698,259
	908,398,896	10,031,043	13,033,479	931,463,418	517,646,870

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

26. NON INTEREST EXPENSES (continued)

The average number of employees during the year was:

	CBE	CN	SSJ	Total	2009 Total
Management	715	-	2	717	564
Unionisable	<u>8,011</u>	<u>262</u>	<u>10</u>	<u>8,283</u>	<u>7,632</u>
	<u>8,726</u>	<u>262</u>	<u>12</u>	<u>9,000</u>	<u>8,196</u>

Included in other expenses are contributions to the pension and provident fund for employees. During the year, the Group and Company expensed Birr 15,890,152 in contributions payable (2009 - Birr 13,508,490).

27. TAX EXPENSE

a) MAJOR COMPONENTS OF TAX EXPENSE

	CBE Birr	CN Birr	Total Birr	2009 Total Bir
Current tax Current tax expense	828,888,944	2,216,462	831,105,406	790,191,329
Deferred tax expense relating to the origination and reversal of temporary differences	<u>8,310,158</u>	<u>12,596</u>	<u>8,322,754</u>	<u>5,598,274</u>
Tax expense	<u>837,199,102</u>	<u>2,229,058</u>	<u>839,428,160</u>	<u>795,789,603</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

27. TAX EXPENSE (continued)

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

	CBE Birr	CN Birr	Total Birr	2009 Total Birr
Accounting profit	2,804,754,843	7,501,451	2,812,256,294	2,720,025,065
Tax at the applicable rate of 30%	841,426,453	2,250,435	843,676,888	816,007,519
Add: Tax effect of tax disallowed expenses				
- Entertainment	186,960	17,946	204,906	685,717
- Donation	-	-	-	1,500
- Penalty for delay in tax payment	<u>14,389,054</u>	<u>-</u>	<u>14,389,054</u>	<u>-</u>
	<u>856,002,467</u>	<u>2,268,381</u>	<u>858,270,848</u>	<u>816,694,736</u>
Less: Tax effect of tax exempted income:				
- Interest income	(13,301,246)	(39,323)	(13,340,569)	(19,761,121)
- Dividend income	(2,154,300)	-	(2,154,300)	-
- Collection from provision held	<u>(3,347,819)</u>	<u>-</u>	<u>(3,347,819)</u>	<u>(1,144,012)</u>
	<u>(18,803,365)</u>	<u>(39,323)</u>	<u>(18,842,688)</u>	<u>(20,905,133)</u>
	<u>837,199,102</u>	<u>2,229,058</u>	<u>839,428,160</u>	<u>795,789,603</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Birr	Birr	2009 Birr
Profit before taxation	2,808,097,961		2,720,025,065
Gain on disposal of property and equipment	(4,204,014)		2,150,021
Depreciation	59,310,455		39,304,596
Adjustment to fixed assets	(431,133)		1,487,887
		2,862,773,269	2,758,667,527
Decrease/(Increase) in operating assets			
Treasury bills more than 90 days	1,667,733,538		671,073,230
Government bonds	421,264,662		172,429,969
Coupon bonds with DBE and regional states	(3,358,900,967)		(3,273,175,412)
Term bonds with EEPCCO	(4,800,000,000)		(3,200,000,000)
Loans and advances to banks	171,750,469		(253,652,126)
Loans and advances to customers	(3,856,201,549)		(2,204,012,081)
Other advances	368,346,326		(1,523,923,415)
Other assets	305,870,113		(747,256,655)
Cash held with NBE - cash reserve	(1,763,252,931)		(900,713,655)
		(10,843,390,339)	(11,259,230,145)
Increase/ (decrease) in operating liabilities			
Customers' deposits	12,369,077,393		5,786,424,545
Other liabilities	2,651,715,456		886,974,423
		15,020,792,849	6,673,398,968
Taxation paid		(786,251,728)	(507,560,852)
Cash flow from operating activities		6,253,924,051	(2,334,724,502)

b) Analysis of cash and cash equivalents

	2010 Birr	2009 Birr	Change Birr	2009 Change Birr
Cash in hand	1,545,067,670	1,011,212,620	533,855,050	22,717,128
Investment in treasury bills	1,497,297,280	-	1,497,297,280	(264,995,632)
Balances with National Bank of Ethiopia	742,933,952	978,711,270	(235,777,318)	(2,025,497,322)
Balances with Bank of Southern Sudan-Juba	89,978,257	-	89,978,257	-
Placements with other banks	3,287,389,411	1,450,059,940	1,837,329,471	(15,161,138)
Deposits due to other banks	(872,194,081)	(1,171,767,848)	299,573,767	(692,937,174)
	6,290,472,489	(2,268,215,982)	4,022,256,507	(2,975,874,138)

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

29. NOTES TO THE BANK STATEMENT OF CASH FLOWS

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

	Birr	Birr	2009 Birr
Profit before taxation	2,804,754,844		2,715,733,851
Gain on disposal of property and equipment	(4,201,334)		(2,150,021)
Depreciation	58,632,637		38,977,041
Adjustment to fixed assets	(431,133)		1,487,887
		2,858,755,014	2,754,048,758
Decrease/(Increase) in operating assets			
Treasury bills more than 90 days	1,667,733,538		671,073,230
Government bonds	421,264,662		172,429,969
Coupon bonds with DBE and regional states	(3,358,900,967)		(3,273,175,412)
Term bonds with EEPCCO	(4,800,000,000)		(3,200,000,000)
Loans and advances to banks	171,750,469		(253,652,126)
Loans and advances to customers	(3,856,201,549)		(2,204,012,081)
Other advances	368,346,326		(1,523,923,415)
Other assets	301,405,664		(747,201,954)
Cash held with NBE - cash reserve	(1,763,252,931)		(900,713,655)
		(10,847,854,788)	(11,259,175,444)
Increase/ (decrease) in operating liabilities			
Customers' deposits	12,328,569,097		5,789,846,500
Other liabilities	2,668,677,490		886,691,228
		14,997,246,587	6,676,537,728
Taxation paid		(784,887,282)	(506,664,313)
Cash flow from operating activities		6,223,259,531	(2,335,253,271)

b) Analysis of cash and cash equivalents

	2010 Birr	2009 Birr	Change Birr	2009 Change Birr
Cash in hand	1,528,145,543	1,011,209,720	516,935,823	22,715,128
Investment in treasury bills	1,497,297,280	-	1,497,297,280	(264,995,632)
Balances with National Bank of Ethiopia	742,933,952	978,711,270	(235,777,318)	(2,025,497,322)
Placements with other banks	3,302,660,858	1,450,059,940	1,852,600,918	(15,161,138)
Deposits due to other banks	(881,369,340)	(1,171,767,848)	290,398,508	(692,937,174)
	6,189,668,293	2,268,213,082	3,921,455,211	(2,975,876,138)

c) Some items on the statement of financial position 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 2010

30. OFF STATEMENT OF FINANCIAL POSITION 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 yearend the contingencies were as follows:

	Birr	2009 Birr
Letters of credit and acceptances	12,096,062,331	9,167,523,403
Guarantees and performance bonds	14,498,690,587	11,929,305,273
	<u>26,594,752,918</u>	<u>21,096,828,676</u>

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 2010 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 (CN) are as follows:-

	Birr	2009 Birr
Group		
Cash held on behalf of National Bank of Ethiopia Trust Funds	1,789,652,400	1,806,832,000
	<u>21,155,793</u>	<u>20,284,446</u>
	<u>1,810,808,193</u>	<u>1,827,116,446</u>
Company		
Cash held on behalf of National Bank of Ethiopia Trust Funds	1,789,652,400	1,806,832,000
	<u>21,155,793</u>	<u>20,284,446</u>
	<u>1,810,808,193</u>	<u>1,827,116,446</u>

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

32. TRUST FUNDS (continued)

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 (CN) are involved in trust activities in which they hold and invest assets on behalf of various institutions, donor-sponsored projects, and pension funds.

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 190,498,998 (2009 - Birr 120,089,777) 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 131,077 (2009 Birr 39,015). 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 474,066,582 (2009 - Birr 349,571,453) and are included in the various major expense categories.

35. PERFORMANCE INDICATORS

The capital adequacy ratio as at 30 June 2010 revealed a percentage of 17.40% 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 3.66% in the preceding year to 1.74% in the current year.

**COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010****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 2010 to the contractual maturity date:

	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 Birr	Total Birr
Assets						
Cash and balances with NBE	2,377,979,879	-	-	-	8,532,170,784	10,910,150,663
Investment in Government securities	254,421,874	1,497,297,281	36,058,329	2,062,753,318	967,772,160	4,818,302,962
Coupon bonds with DBE and regional states	138,857,535	261,541,936	1,107,202,590	6,319,153,196	3,562,127,197	11,388,882,454
Term bonds with EEPKO	42,857,143	107,142,857	492,857,143	9,707,142,857	6,250,000,000	16,600,000,000
Placements with other banks	3,097,082,587	190,306,823	-	-	-	3,287,389,410
Loans and advances to banks	21,451,113	24,336,024	-	38,985,091	177,543,569	262,315,797
Loans and advances to customers	2,251,244,997	6,838,433,612	3,734,385,706	4,229,849,530	5,100,998,887	22,154,912,732
Other advances	-	-	-	1,155,577,090	-	1,155,577,090
Investment in associates	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	2,768,051	2,768,051
Other assets	-	764,322,450	93,901,030	1,053,193,690	1,114,935,461	3,026,352,631
Property and equipment	-	-	-	-	621,170,497	621,170,497
Total assets	8,183,895,128	9,683,380,983	5,464,404,798	24,566,654,772	26,332,391,664	74,230,727,345
Liabilities						
Deposits due to other banks	872,194,081	-	-	-	-	872,194,081
Customers' deposits	31,797,697,344	21,885,877,992	994,088,548	-	-	54,677,663,884
Taxation	-	830,925,110	-	-	-	830,925,110
State dividend payable	-	1,475,666,807	-	-	-	1,475,666,807
Other liabilities	-	8,150,159,832	2,651,145,256	-	-	10,801,305,088
Total liabilities	32,669,891,425	32,342,629,741	3,645,233,804	-	-	68,657,754,970
Net liquidity gap as at 30 June 2010	(24,485,996,297)	(22,659,248,759)	1,819,170,994	24,566,654,772	26,332,391,664	5,572,972,375
Net liquidity gap as at 30 June 2009	(19,768,648,707)	(23,616,639,404)	7,712,528,934	14,214,569,775	26,466,840,120	5,068,650,718

**COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010****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.

	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 Birr	Non interest bearing Birr	Total Birr
Assets								
Cash and balances with NBE	-	254,421,874	1,497,297,280	-	2,062,753,319	-	10,910,150,663	10,910,150,663
Investments in Government securities	2.28	-	-	36,058,329	-	967,772,160	-	4,818,302,962
Coupon bonds with DBE and regional states	4.38	138,857,535	261,541,936	1,107,202,590	6,319,153,196	3,562,127,197	-	11,388,882,454
Term bonds with EEPKO	4.38	42,857,143	107,142,857	492,857,143	9,707,142,857	6,250,000,000	-	16,600,000,000
Placements with other banks	0.70	3,097,082,587	190,306,823	-	-	-	-	3,287,389,410
Loans and advances to banks	3.54	21,451,113	24,336,024	-	38,985,091	177,543,569	-	262,315,797
Loans and advances to customers	8.35	2,251,244,997	6,838,433,612	3,734,385,706	4,229,849,530	5,100,998,887	-	22,154,912,732
Other advances	-	-	-	-	-	-	1,155,577,090	1,155,577,090
Investment in associates	-	-	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	-	-	2,768,051	2,768,051
Other assets	-	-	-	-	-	-	3,026,352,631	3,026,352,631
Property and equipment	-	-	-	-	-	-	621,170,497	621,170,497
Total assets	-	5,805,915,249	8,919,058,532	5,370,503,768	22,357,883,993	16,058,441,813	15,718,923,990	74,230,727,345
Liabilities								
Deposits due to other banks	-	872,194,081	-	-	-	-	-	872,194,081
Customers' deposits	3.60	31,797,697,344	21,885,877,992	994,088,548	-	-	-	54,677,663,884
Taxation	-	-	-	-	-	-	830,925,110	830,925,110
State dividend payable	-	-	-	-	-	-	1,475,666,807	1,475,666,807
Other liabilities	-	-	-	-	-	-	10,801,305,088	10,801,305,088
Total liabilities	-	32,669,891,425	21,885,877,992	994,088,548	-	-	13,107,897,005	68,657,754,970
On statement of financial position interest sensitivity gap at 30 June 2010	-	(26,863,976,176)	(12,966,819,460)	4,376,415,220	22,357,883,993	16,058,441,813	2,611,026,985	5,572,972,375
On statement of financial position 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

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010
38. FOREIGN CURRENCY RISK

The table below analyses the currencies to which the group is exposed at 30 June 2010.

	USD Birr	GBP Birr	EURO Birr	OTHER Birr	TOTAL Birr
At 30 June 2010					
Assets					
Cash and balances with National Bank of Ethiopia	291,164,433	6,543,315	53,058,001	38,880,660	389,646,409
Investment in government securities	-	-	-	-	-
Coupon bonds with DBE and regional states	-	-	-	-	-
Term bonds with EEPCO	-	-	-	-	-
Placements with other banks	2,598,033,431	52,647,827	-	53,197,726	2,703,878,984
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers (net)	-	-	-	-	-
Other advances	-	-	-	-	-
Investment in associates	-	-	-	-	-
Other investments	-	-	-	-	-
Other assets	1,384,572,693	371,314	44,921,486	262,651	1,430,128,144
Property and equipment	-	-	-	-	-
Total foreign currency assets	4,273,770,557	59,562,456	97,979,487	92,341,037	4,523,653,537
Liabilities					
Deposits due to other banks	30,395,741	12,829	49,939,098	-	80,348,16
Customers' deposits	1,272,827,456	12,673,339	224,579,829	7,674,555	1,517,755,179
Taxation	-	-	-	-	-
State dividend payments	-	-	-	-	-
Other liabilities	498,162,915	-	8,068,566	-	506,231,481
Total foreign currency liabilities	1,801,386,112	12,686,168	282,587,993	7,674,555	2,104,334,828
Off statement of financial position net notional position	4,818,012,474	54,298,590	1,047,805,000	64,650,040	5,984,766,104
Foreign currency exposure at 30 June 2010	(2,345,628,029)	(7,422,302)	(1,232,413,506)	20,016,442	(3,562,447,395)
As at 30 June 2009					
Total foreign currency assets	2,907,117,520	13,739,918	128,372,735	93,222,696	3,142,452,869
Total foreign currency liabilities	1,094,177,377	10,282,747	162,904,000	36,580	1,267,400,704
Off statement of financial position 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)

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

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.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

39. RISK MANAGEMENT DISCLOSURES (continued)

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.

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.

B) 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 nontrading positions.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2010

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.
- The Ethiopian Revenues and Customs Authority (ERCA) has instructed banks to register for and pay value added tax (VAT) on the sale of property they held as collateral. However, banks have not yet registered as VAT payers on the ground that the sale of properties to reclaim debt was considered a normal banking transaction and not a profit making endeavor. It is not possible to determine the amount of liability involved and to assess the outcome of this dispute.

41. CAPITAL COMMITMENTS

	Birr	2009 Birr
Group and company	<u>71,129,468</u>	<u>45,950,670</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 226 branches in various parts of the country.

43. AUTHORIZATION

The President of the Bank authorized the issue of these financial statements on 7th February 2011.



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