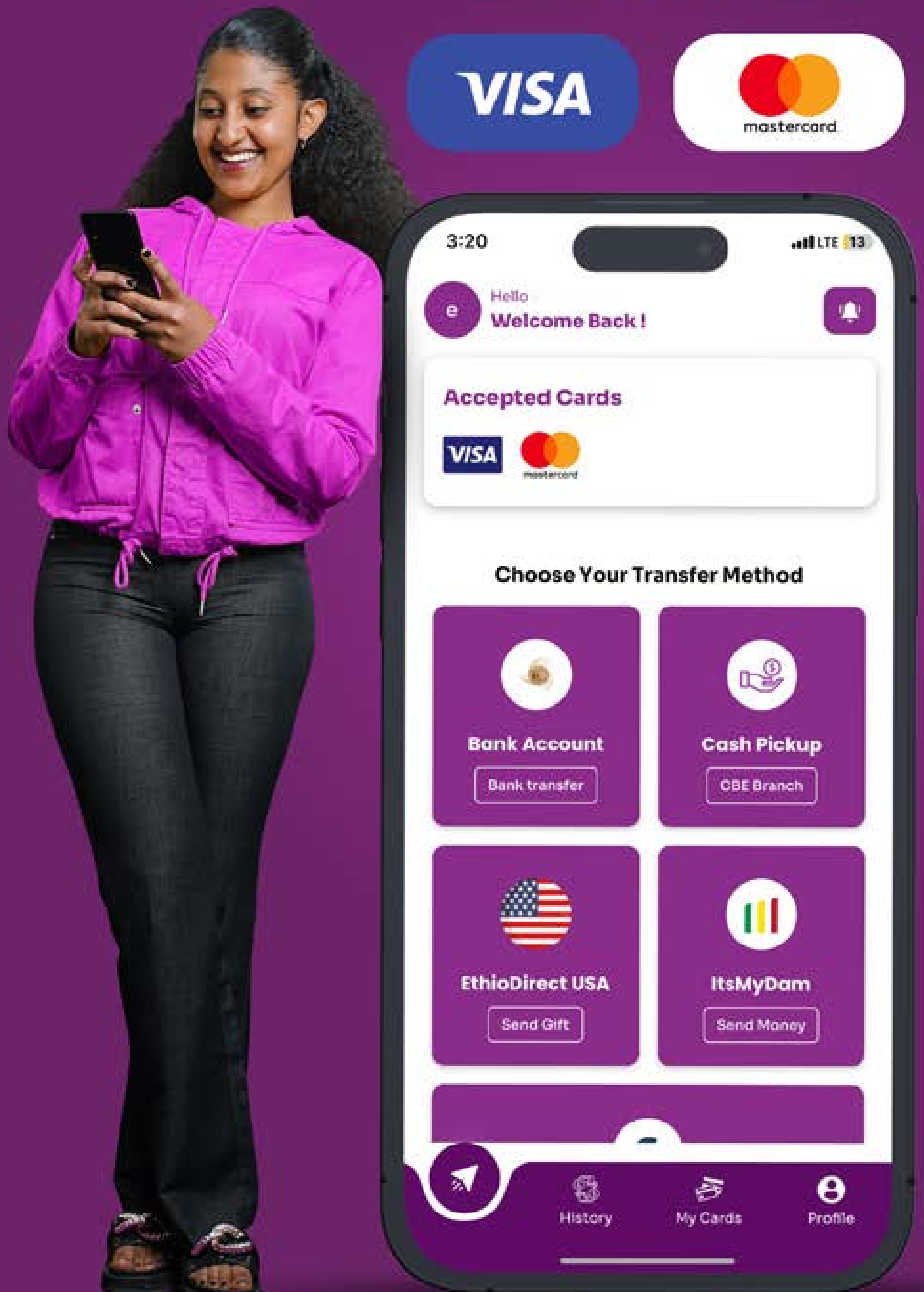
ANNUAL REPORT

2022/23

የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

EthioDirect

FREE MONEY TRANSFER SERVICE TO ETHIOPIA



From nine countries

Available on the App Store

ANDROID APP ON Google Play

የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

CONTENTS

PROFILE

- Has been serving Ethiopia since 1942.
- Pioneered ATM services in the nation.
- Introduced Western Union Money Transfer services to Ethiopians.
- Pioneered interest-free banking service in the country.
- Has been playing a catalytic role in the socio-economic development of the nation.
- Had 1,937 branches across the country as of 30 June 2023.
- Has strong correspondent relationships with about 37 renowned foreign banks and SWIFT bilateral key arrangements with over 750 banks.
- Achieved a strong asset position of Birr 1.3 trillion as of 30 June 2023.
- Combines a wide capital base with more than 50,000 committed permanent employees.
- Is headquartered in the tallest (4B+G+48 floors) East African skyscraper.

VISION

To become a world-class commercial bank financially driving Ethiopia's future.

MISSION

We are committed to realizing stakeholders' value through enhanced financial intermediation globally, deploying highly motivated and skilled employees.

MOTTO

The Bank You Can Always Rely on!

VALUES

i) Integrity

- We are committed to the highest ideals of honor and integrity.
- We are committed to acting in an honest and trustworthy manner.
- We are committed to firmly adhering to ethical principles and standards.

ii) Service Excellence

- We are committed to maintaining the highest operating standards.
- We are committed to being a preferred brand in service quality in the minds of customers and the general public.
- We strive to build long lasting relationships with our customers.

iii) Professionalism

- We take ownership and personal responsibility for all what we do.
- We are professionals in conduct and treat customers with utmost respect.
- We are responsive to the needs and interests of our customers.
- We maintain confidentiality and respect the privacy of all customers.
- We continually develop ourselves to maintain leading-edge capabilities.
- We apply our knowledge and competence to our competitive advantage.

VALUES - (Continued)

iv) Empowerment

- We distinguish employees as valuable organizational resources.
- We promote delegation of duties and responsibilities.
- We maintain an atmosphere that inspires confidence and taking ownership.
- We take responsibility, support one another and serve customers in a courteous and respectful manner.
- We recognize our employees for their best achievements.

v) Innovative Organization

- We go above and beyond to find solutions to stakeholder problems, leveraging technology where possible.
- We anticipate and respond to internal and external changes through constant improvement and adjustment.
- We establish a culture that nurtures individual and group learning.
- We retain and disseminate tacit knowledge across the bank.

vi) Teamwork

- We respect one another and cooperate in our work.
- We recognize the importance of teamwork for our success.
- We collaborate and support one another to ensure process integration and minimize external business challenges.

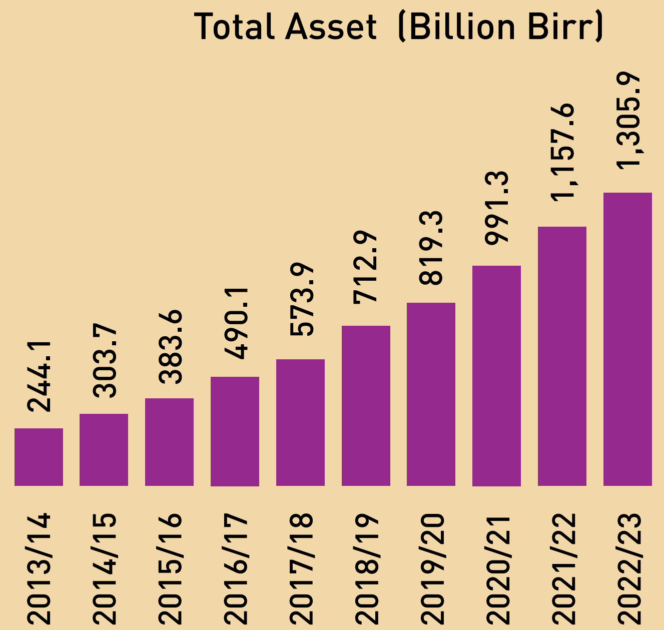
vii) Respect for Diversity

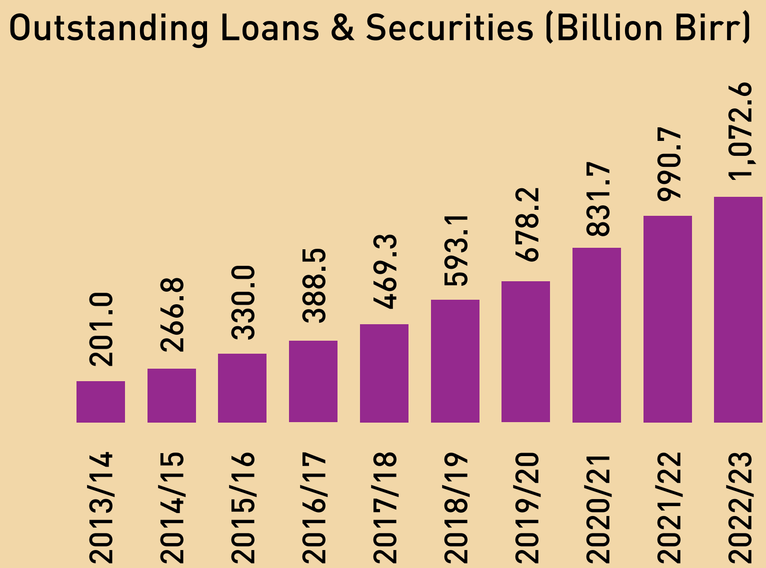
- We are responsive to cultural, ethical, religious or other values of employees and customers.
- We value diversity of ideas and viewpoints of our employees.
- We foster an environment of inclusiveness, where all people, regardless of their sex, age, belief, etc., can exercise their maximum potential.
- We are committed to addressing the needs of our customers, regardless of their sex, age, educational level, etc.
- We are committed to listening to one another and responding appropriately.

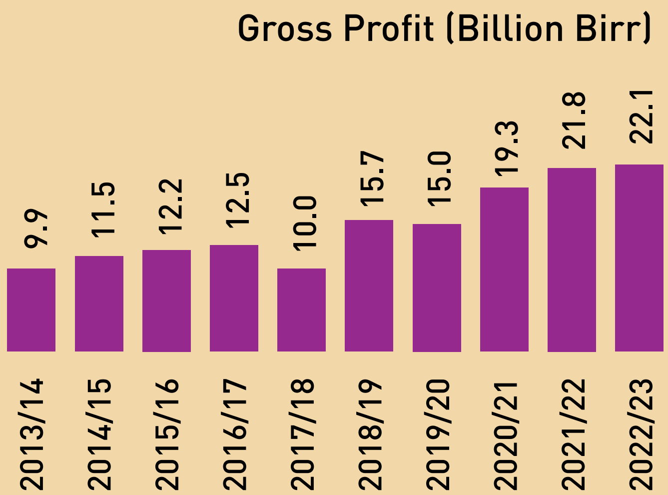
viii) Corporate Citizenship

- We value the importance of our role in national development endeavors and stand up for this commitment.
- We abide by the laws of Ethiopia and other countries in which we do business.
- We care about society's welfare and the environment.
- We believe that the sustainability of our business depends on our ability to maintain and build public confidence.

PERFORMANCE HIGHLIGHTS

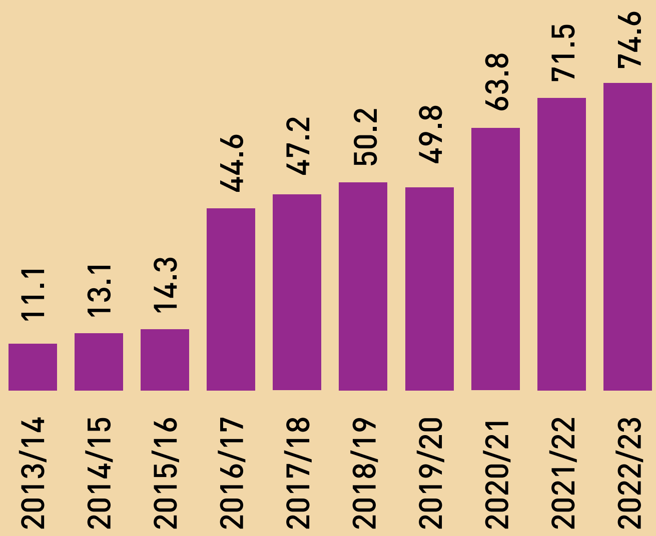




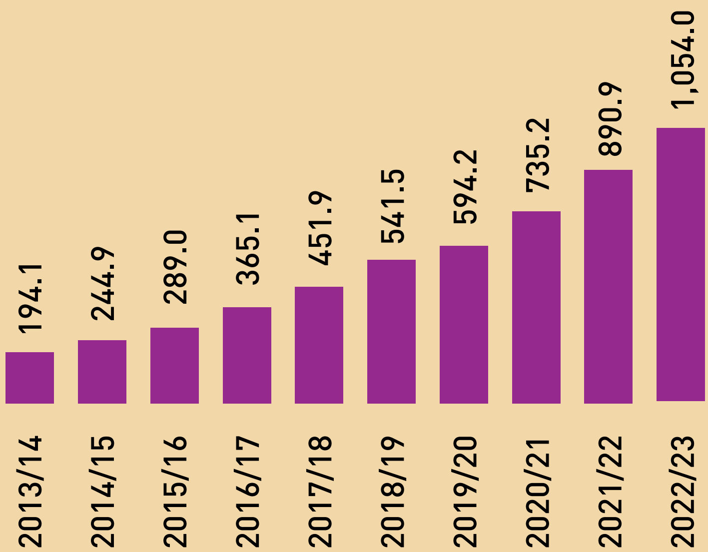


PERFORMANCE HIGHLIGHTS - (Continued)

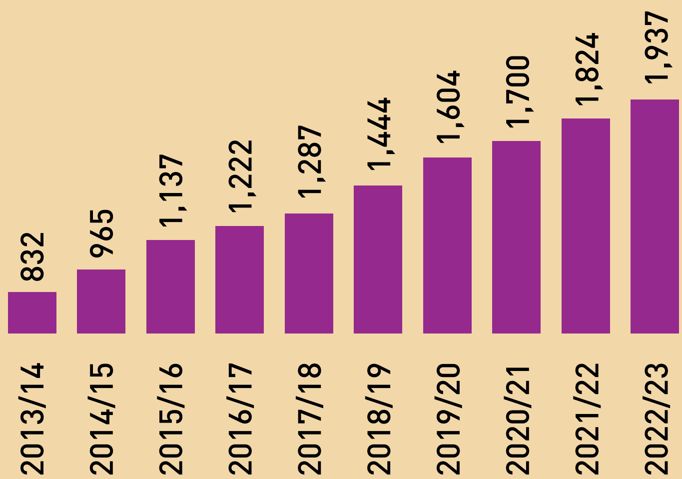
Equity (Billion Birr)



Deposit (Billion Birr)



No. of Branches



BOARD OF DIRECTORS

Ato Teklewold Atinafu
Chairperson

Fitsum Assefa (Ph.D)
Member

Woy. Yasmin Wohabrebbi
Member

Ato Getachew Negera
Member

Ato Addisu Haba
Member

BOARD OF DIRECTORS - (Continued)

Ato Ahmed Tusa
Member

Woy. Aynalem Nigussie
Member

Ato Wondimagegnehu Negera
Member

Woy. Tigist Hamid
Member

Eyob Tesfaye (Ph.D)
Member

CBE NOOR SHARI'AH ADVISORY COMMITTEE

Jeyilan Kedir (Ph.D)
Chairperson

Mohammed Hamidin (Ph.D)
Vice Chairperson

Nur Abdi Gudle (Associate Prof.)
Member

Mohammed Zein Nur (Ph.D)
Member

Ustaz Awel Abdulwehab
Member

EXECUTIVE MANAGEMENT

Ato Abie Sano
President

Ato Dereje Fufa
Executive V/P - Retail and Branch Banking

Ato Frew Gebreselassie
A/V/P - Risk and Compliance

Ato Mulugeta Sarko
V/P - Internal Audit

Woy. Makeda Oumer
V/P - International Banking

EXECUTIVE MANAGEMENT - (Continued)

Ato Fikireselassie Zewdu
V/P - Credit

Ato Amare Assefa
V/P - Information Systems

Woy. Sosina Alemayehu
V/P - Legal Service

Ato Nuri Hussein
V/P - Interest-free Banking

Ato Yonas Lidetu
V/P - Finance

Emebet Melese (Ph.D)
V/P - Strategy Planning
& Transformation

EXECUTIVE MANAGEMENT - (Continued)

Ato Mideksa Tolesa
V/P - Facilities Management

Ato Ephrem Mekuria
V/P - Human Resource

Ato Surra Saketa
Chief of Staff

Ato Dahlak Yigezu
V/P - Digital Banking

Ato Kidane Mengesha
V/P - Wholesale Banking

Ato Haileyesus Bekele
V/P - Customer Experience

PRESIDENT'S MESSAGE

It gives me great pleasure to report that 2022/23 was another fruitful fiscal year for Commercial Bank of Ethiopia (CBE), in almost all metrics, despite unfavourable economic conditions faced both globally and locally.

At the global level, tight monetary policies, restrictive financial conditions, and weak global trade growth led to slow economic growth, whose rate the IMF reported to be 3.5% in 2022 and 3.0% in 2023. Likewise, global foreign direct investment flows decreased by 12% in 2022 to USD 1.3 trillion, and they were expected to decline further in 2023.

These phenomena negatively impacted the Ethiopian economy, particularly by leading to a slow growth of exports, imports, private transfers, and foreign direct investment. While the Ethiopian economy recovered in the 2022/23 FY growing by 7.2%, amounts of export earnings, goods imports and private transfers dropped by 13.1%, 5.3%, and 11.3, respectively, from those in the preceding year.

Be that as it may, CBE earned the ever highest gross profit in its history – Birr 22 billion - from a gross income of Birr 119 billion.

The Bank also recorded an impressive historical milestone as its deposit level surpassed Birr 1.05 trillion in the 2022/23 FY, owing to additional deposits amounting to Birr 163.1 billion. Proudly, CBE reached this level within just three years after it hit the Birr 504 billion record in 2019.

The Bank's ever-expanding customer base was an important driving force behind the remarkable success of the Bank, as proved by the increase in new accounts opened and branches launched during the reporting period.

The total number of CBE account holders increased by 12.2 % to reach 40.3 million because 4.4 million new deposit accounts were opened. Particularly, the CBE NOOR service raised the number of IFB account holders to 6 million, recruiting nearly one million new ones.

CBE registered a 32% increase in foreign currency earnings performance over the previous fiscal year as it gained USD 3.5 billion foreign currency and exceeded the respective target by 107%.

Moreover, the Bank disbursed Birr 151.2 billion in new loans, out of which Birr 77.3 billion, Birr 40 billion, and above Birr 17.6 billion were earmarked for private borrowers, fertilizer imports and CBE NOOR financing, respectively. This reflects the Bank's endeavor to address a wide range of customers. Agricultural loans rose by nearly 5 times and CBE NOOR financing by 130%.

Remarkably, the number of active digital channel users significantly increased to 10.7 million debit card holders, 8.6 million mobile banking service users and 10.2 million CBE Birr mobile money service users.

Consequently, digital financial transactions outnumbered teller-mediated ones as over 771 million (65%) of the transactions were carried out digitally, unlike only 35.4% of the transactions in the previous fiscal year. This indicates that CBE has progressively gone digital due to its efforts to adopt technology and provide convenient banking solutions to customers.

At the same time, the branch network of the Bank expanded to 1,937 since 113 additional branches were opened to boost the accessibility of the Bank. The number of branches dedicated to CBE NOOR services grew to 152 and that of multipurpose branches offering window-based CBE NOOR services to 1,785. CBE had 43,622 agents and 56,831 partner merchants as their numbers increased by 107.8 % and 50.1%, respectively.

Hiring 12,141 permanent personnel, CBE increased the total number of its employees to 80,848 (50,056 permanent and 30,792 contract workers), so it continued to be the largest employer in the country. It also enhanced the capacity of its staff throughout the FY, offering a variety of technical, developmental and ethics training programs to about 79,553 employees.

One of the major events in the year was the launch of EthioDirect mobile application, which aimed to serve the Ethiopian diaspora by facilitating money transfers to Ethiopia. Against the backdrop of Ethiopia's foreign exchange constraints, CBE's efforts to increase digital financial services have been remarkable. In addition, the Bank's digital application dubbed Fuel App assisted cashless fuel payment procedures for customers, marking a notable achievement in the year.

A year goes by, a year comes: CBE continues to move forward and thrive. Regardless of how well we have performed so far, we look forward to what is ahead with the conviction that there is always room for improvement. As the saying goes, success is a journey, not a destination!

I guarantee all stake holders that CBE will maintain its growing pace by increasing investment in technology, internal capacity, and human resources, which will define the Bank's future growth and help it to face future challenges.

In connection with the remarkable achievements registered in the 2022/23 FY, I sincerely appreciate the leadership of CBE's Board of Directors as well as the unfettered commitment and hard work of the Management and employees. Thanks are also due to our partners and other stakeholders for their respective contributions. Above all, I thank our customers for their unwavering trust, which has been the foundation of our success.

Abie Sano
President

የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

ሲቢኢ ኑር
CBE NOOR

CBE Shariá Advisory Committee (SAC) Statement for the Fiscal Year Ended June 30 2023

Pursuant to the CBE's SAC charter and its provision associated to IFB service, and in accordance with the IFRS & AAOIFI Shariá standard, the SAC presents the following report:

CBE Interest Free Banking (CBE Noor) offers a wide range of deposit, financing and various banking and services comparable to other banking services in Commercial Bank of Ethiopia, irrespective of race, religion or company.

We are very glad when we are honored to announce that the interest free banking (CBE Noor) has mobilized deposit of birr 90.5 billion and earned profit before tax of birr 1.71 Billion from IFB business during the budget year ended June 30 2023.

Thus, we hope and anticipate that CBE Noor will continue to contribute more by upholding similar Shariah compliance dedication, implementations and applications without undermining the never-ending quest of customers and by addressing banking the unbanked, serving the missing middle and accommodating all those who are far from banks due to their uncompromised belief.

As Shariah Advisory Committee of the Bank, we have given our highest dedication to ensure best quality and demonstrated commitment to Shariah compliance in the products, process, documentations, marketing and other related Sharia compliant products and services by the Bank during the fiscal year. Besides its advisory and Shariá compliance assurance services on the regular banking businesses, the Shariah Committee also supports on the development of other Shariah based products and services initiated and attend awareness creation programs to address questions may be raised by the Community at large.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by CBE Noor during the year ended 30 June 2023. We have also conducted our reviews to form an opinion as to whether the Bank has complied with Shariá Rules and Principles and also with the specific Fatwas, rulings and guidelines issued by us and the Bank.

The Bank's management is responsible for ensuring that the bank conducts its business in accordance with Shariá Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shariá Rules and Principles.

In our opinion:

a. The contracts transactions and dealings entered into by the Bank during the year ended 30 June 2023 that we have reviewed are in compliance with the Shari'a Rules and Principles;
b. The profits distribution and loss allocation to the investment accounts complies with the principle adopted according to the Sharia rules and principles.
c. All amounts devolved to the Bank from sources or realized from sources like penalties or by means that do not comply with the Sharia rules and principles were not incorporated in the Bank's revenues and are placed and reported separately for charity purposes.
d. The Responsibility of paying Zakat falls on Investment account holders. The Bank is not authorized to pay Zakat directly, as there is no law to that effect.

Finally, the Sharia Advisory Committee takes this opportunity to express its thanks to the Board of Directors and the Bank's management for their co-operation and their keenness in understanding and adherence to the rules of the noble Shariá principles.

Thank you!

Jeyilan Kedir (Ph.D)
SAC Chairperson

Mohammad Hamidin (Ph.D)
SAC Vice Chairperson

Nur Abdi Gudle (Associate Prof.)
SAC Member

Mohammadzen Nur (Ph.D)
SAC Member

Awel Abdulwehab /Ustaz /
SAC Member

1 HIGHLIGHTS OF GLOBAL AND DOMESTIC ECONOMIES

1.1 The Global Economy

Global economic activity continued to soften due to tight monetary policies, restrictive financial conditions, and weak global trade growth. Besides, the globally sought recovery from the COVID-19 pandemic and the Russia - Ukraine war remained slow. Thus, global economy showed a sluggish growth at a rate of 3.5% in 2022 and 3.0% in 2023 (IMF, 2023)[1].

In 2023, global trade growth weakened significantly to an estimated 0.6% with a sharp decline from the 5.7% figure in 2022, remaining below the pre-pandemic trend of 3.2%. This slowdown is attributed to a slump in merchandise trade. By contrast, trade in services, particularly tourism and transport, continued to recover. International tourism showed signs of a robust recovery and is expected to reach pre-pandemic levels by 2024 (UNCTAD 2024)[2].

Global foreign direct investment (FDI) flows in 2022 fell by 12% to USD 1.3 trillion and are expected to be negatively impacted in 2023. The global unemployment rate dropped to 5.1 % (the lowest level since the outbreak of the pandemic) in 2023,though it showed a modest improvement in 2022 (ILO, January 2024)[3]. On the other hand, remittances to low- and middle-income countries are estimated to grow by 3.8% in 2023 with a moderation from the high growth rate of 7% in 2022 (World Bank, December 2023)[4].

During the 2022/23 FY, the average price of energy and non-energy items declined by 0.7% and 7.8%, respectively. Similarly, the average price of Arabica coffee decreased by 8.3% to USD 5.1/kg and that of gold declined marginally by 0.2% to USD 1,830.4/troy oz. The price of oilseeds showed a continuous decline throughout the year.

Likewise, the prices of several imported commodities declined from those in the previous year. Crude oil prices dropped by 5.4% to USD 84.3 per barrel, while palm oil prices decreased significantly (by 32.4%) to USD 948.9 per metric ton. The average prices of most metals and minerals except nickel also went down. Notably, the average prices of DAP and urea fertilizers decreased by 13.6% and 34%, reaching USD 646 per metric ton and USD 471.6 per metric ton, respectively.[5]

1.2 The Ethiopian Economy

Ethiopia is slowly emerging from multiple and overlapping shocks that have been occurring in the past three years. The country's economy grew by 7.2% during the 2022/23 FY. Sector-wise, outputs of the agriculture, industry, and service sectors rose by 6.3%, 6.9%, and 8%, respectively (MoPD, 2023)[6].

During the 2022/23 FY, export earnings totalled to USD 3.6 billion with a 13.1% decrease from the previous fiscal year. Likewise, goods imports showed a 5.3% decline. Ethiopia earned USD 2.8 billion during the FY from private transfers, which showed an 11.3% decrease from the earnings in the preceding year. Even if the overall balance of payments registered a deficit, it is slightly narrower as compared with the 2021/22 FY (NBE, 2023)[7].

The general year-on-year inflation reached 29.3% in June 2023. While the year-on-year food inflation reached 28.0%, the non-food inflation was 31.4%, with some possible adverse impacts on banks' mobilization of deposits from the household sector of the economy (ESS, 2023)[8].

The financial sector was robust, with growing business volume and accessibility. As the banking sector welcomed eleven new banks, the total number of banks reached 31 and that of their branch networks 11,381, making the competition stiffer. The number of insurance companies and microfinance institutions also grew to 18 and 47, respectively (NBE, 2023)[9].

Cited Sources

1. International Monetary Fund. (2023). WORLD ECONOMIC OUTLOOK UPDATE: October 2023. Retrieved from [https://www.imf.org/en/Publications/WEO]
2. United Nations Conference on Trade and Development. (2024). WORLD ECONOMIC SITUATION AND PROSPECTS: January 2024. Retrieved from [https://unctad.org/publication/world-economic-situation-and-prospects-2024]
3. International Labour Organization. (2023). WORLD EMPLOYMENT AND SOCIAL OUTLOOK: January 2023. Retrieved from [https://www.ilo.org/global/research/global-reports/weso/WCMS_908142/lang--en/index.htm]
4. World Bank. (2023). Migration and Development Brief 39: December 2023. Retrieved from [https://www.knomad.org/publication/migration-and-development-brief-39]
5. World Bank. (2023). Commodity Markets Outlook: July 2023. Retrieved from [https://www.worldbank.org/en/research/commodity-markets]
6. MoPD data, 2023
7. NBE data, 2023
8. Ethiopian Statistical Service. (EFY 2016). Monthly News Release: Inflation Report on July. Retrieved from [http://www.statsethiopia.gov.et/wp-content/uploads/2023/08/CPI-July-2023-2.pdf]
9. National Bank of Ethiopia. (2023). 2022/23 4th Quarter Report. Retrieved from [https://nbe.gov.et/wp-content/uploads/2023/12/Fourth-Quarter-Report-2022-23.pdf]

2 HIGHLIGHTS OF CBE'S FINANCIAL STATEMENTS

2.1 Income Statement

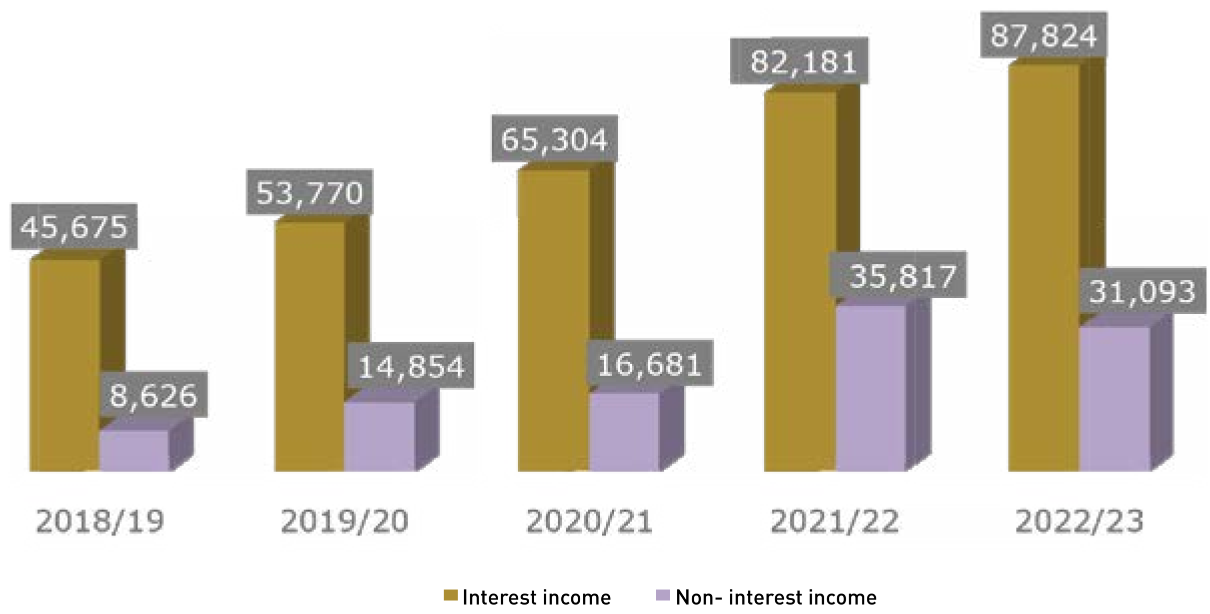
2.1.1 Income

CBE's gross income reached Birr 119 billion in the 2022/23 FY after rising by a percent from the previous year. The largest portion (74%) of the income was interest income, which increased by 7% unlike non-interest revenue that dropped by 13.2%.

Income Statement Comparison with 2021/22 FY			
Particulars	**2021/22 FY (Mn. Birr)**	**2022/23 FY (Mn. Birr)**	**Growth (%)**
Total income	**117,997**	**118,917**	**0.8**
Interest income	82,181	87,824	6.9
Non-interest income	35,817	31,093	-13.2
Total expense	**96,177**	**96,807**	**0.7**
Interest expense	38,713	45,674	18.0
Non-interest expense	57,463	51,133	-11.0
Profit before tax	**21,821**	**22,110**	**1.3**

Over the course of the last five fiscal years, the bank's income has increased steadily, with interest income regularly accounting for the largest share of this rise.

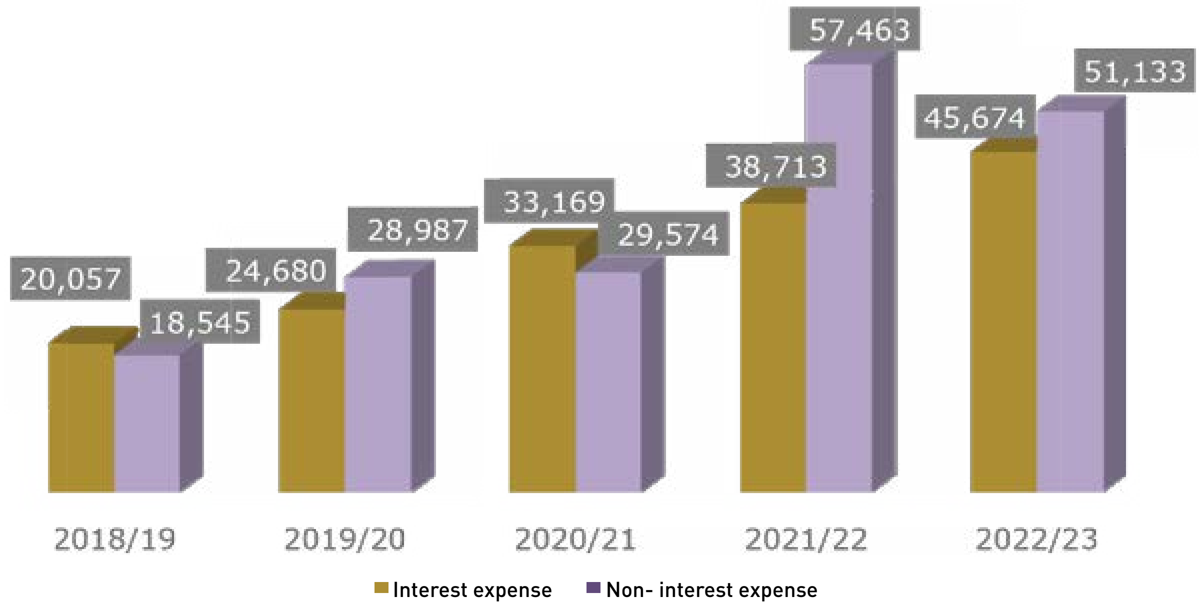
Trends in Income (Mr. Birr)



2.1.2 Expense

CBE's total expense for the 2022/23 FY increased marginally (by 0.7%) to Birr 97 billion. The amount spent on interest increased by 18%, accounting for 47% of the total expense. However, non-interest costs reached Birr 51 billion, with an 11% decrease from the preceding year's figure.

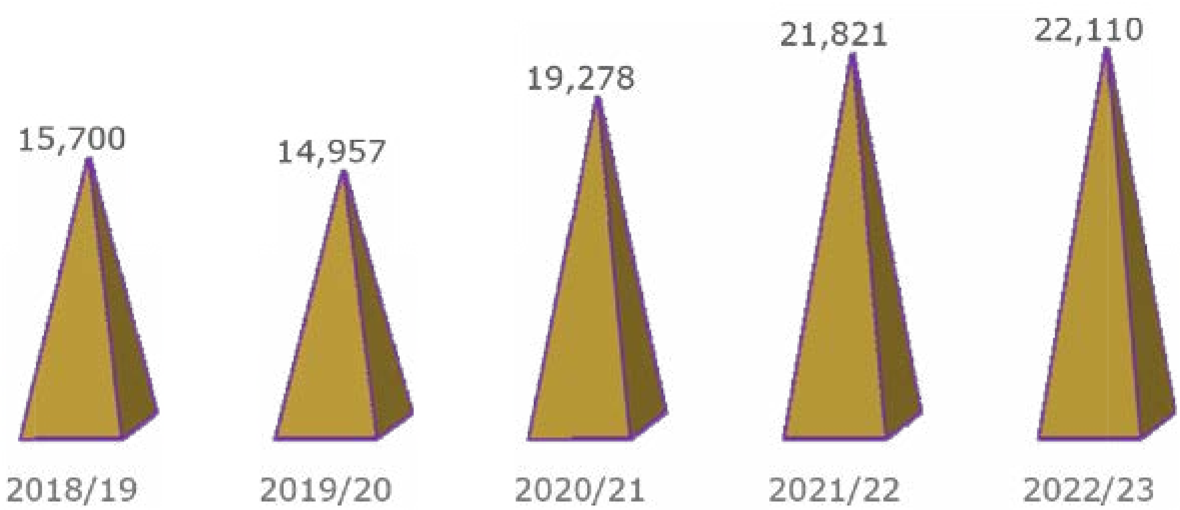
Trend in Expense (Mn. Birr)



2.1.3 Profit

CBE's net profit before tax increased by 1.3% from the 2021/22 fiscal year to Birr 22 billion.

Trends in Profit Before Tax (Mn. Birr)



CBE's Return on Equity (ROE) was 30.25%, while its Return on Assets (ROA) was 1.8% and the Net Interest Margin (NIM) was 3.97%. These imply that the bank's profitability metrics were sound, compared with standards.

Profitability Indicators Comparison with 2021/22 FY		
Particulars	**2021/22 FY (%)**	**2022/23 FY (%)**
ROA	2.03	1.8
ROE	32.35	30.25
NIM	4.58	3.97

2.2 Balance Sheet

2.2.1 Assets

As of 30 June 2023, CBE's total asset grew to Birr 1,305.9 billion, showing a 12.8% increase from the figure in the preceding year. The overall growth in assets was mostly driven by the higher growth of debt and equity securities (6.5%). The loan portfolio grew by 8.3% over that time to reach Birr 1,072.6 billion.

The bank's commitment to serving its diverse clientele is demonstrated by the fact that CBE NOOR financing increased by 130% and agriculture loans grew by approximately fivefold.

Comparison of Outstanding Credit and Securities (Net of Provision) with 2021/22 FY			
Particulars	2021/22 FY (Mn. Birr)	2022/23 FY (Mn. Birr)	Growth (%)
Debt & equity securities	**697,033.0**	**742,255.6**	**6.5**
Loans to customers (Net of impairment losses)	**293,331.6**	**329,278.7**	**12.3**
Agriculture	4,764.4	28,328.9	494.6
Manufacturing	158,063.5	180,651.0	14.3
Domestic trade and services	14,640.9	32,526.0	122.2
Foreign trade	51,050.3	6,715.7	-86.8
Building and construction	20,032.1	8,784.4	-56.1
Mining and quarrying	22.0	-	-
Personal and consumer loan	35,859.9	51,804.9	44.5
CBE NOOR finance	**8,898.5**	**20,467.8**	**130.0**
Loans to financial institutions	**321.4**	**1,080.3**	**236.1**
Total outstanding loans & securities	**990,685.8**	**1,072,614.6**	**8.3**

CBE disbursed a total loan of Birr 151.2 billion during the 2022/23 FY. Out of this, Birr 77.3 billion and Birr 40 billion were disbursed to private borrowers and fertilizer importers, respectively. The total CBE NOOR financing amounted to Birr 17.6 billion. On the other hand, the amount of loans collected during the period was Birr 141 billion.

2.2.2 Liabilities

The overall liabilities of CBE rose by 13.4% in 2022/23 to Birr 1,231.2 billion. Deposits accounted for 86% of the total liabilities, and the total deposit rose by 18.4% to Birr 1,054 billion, compared with the balance on 30 June 2022.

Comparison of Year-End Deposits with 2021/22 FY			
Particulars	2021/22 FY (Mn. Birr)	2022/23 FY (Mn. Birr)	Growth(%)
Customer deposit	**889,662**	**1,052,782**	**18.3**
Demand deposit	331,493	371,622	12.1
Saving deposit	476,583	582,489	22.2
Fixed time deposit	12,027	8,241	-31.5
CBE NOOR deposit	69,559	90,431	30.0
Deposit due to other banks	**1,280**	**1,709**	**33.5**
Total deposit	**890,942**	**1,054,491**	**18.4**

2.2.3 Equity

CBE's equity reached Birr 74.6 billion as of 30 June 2023, showing an increment of 4.4% from its 30 June 2022 position.The capital adequacy ratio stood at 25.9%.

3 HIGHLIGHTS OF NON-FINANCIAL DEVELOPMENTS

3.1 Expansion of Customer Base and Use of Digital Channels

The customer base of the bank continued to increase, and 4.4 million new deposit accounts were opened during the 2022/23 FY. The number of CBE's account holders reached 40.3 million by the end of the year, growing by 12.2% from the figure in preceding year. CBE NOOR raised the total number of its account holders to 6 million by recruiting nearly 1 million new account holders.

Similarly, digital channel users increased in number as 10.7 million debit card holders, 8.6 million mobile banking users, and 10.2 million CBE Birr users joined the established bases.

3.2 Accessibility

To increase its accessibility, CBE opened 113 new branches in the 2022/23 FY, so it expanded its branch network to 1,937 as of 30 June 2023. Branches dedicated for CBE NOOR services reached 152 in the year, and 1,851 branches of the bank provided the CBE NOOR window-based services.

The bank continued recruiting agents and merchants for its CBE Birr mobile money service in the fiscal year to enhance the availability of its services through digital banking. Therefore, it could work with 43,622 agents and 56,831 merchants as of 30 June 2023.

3.3 Human Resource Development

By the end of June 2023, CBE had 50,056 permanent employees, having hired 12,141 permanent staff members in 2022/23. Furthermore, the bank engaged 30,792 contract workers in this year. With such a big staff size, CBE continued to be the largest employer in Ethiopia.

During this period, the bank organized and conducted various training programs to develop the capacity of its staff. About 79,553 trainees attended technical, developmental, and ethics training programs.

ANNEX: 2022/23 AUDITOR'S REPORT AND FINANCIAL STATEMENTS

የሒሳብ ምርመራ አገልግሎት ኮርፖሬሽን

AUDIT SERVICES CORPORATION

COMMERCIAL BANK OF ETHIOPIA

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

30 June 2023

በፌደራል ዋና ኦዲተር መሥሪያ ቤት
የሂሣብ ምርመራ አገልግሎት ኮርፖሬሽን

Office of the Federal Auditor General
Audit Service Corporation

INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF COMMERCIAL BANK OF ETHIOPIA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Bank of Ethiopia (the Bank) and its consolidated subsidiaries (the Group), which comprise the consolidated and the Bank's statements of financial position as at 30 June 2023, and the consolidated and the Bank's statements of profit or loss and other comprehensive income, consolidated and Bank's statements of changes in equity and consolidated and the Bank's statements of cash flows for the year then ended, and notes to the consolidated and the Bank's financial statements, including consolidated and the Bank's summaries of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group and of the Bank as at 30 June 2023 and the consolidated and the Bank's financial performances and the consolidated and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

asc

☎ 251 115 515222 Fax 251 115 513083 E-mail:ASC@ethionet.com ✉ 5720
251 115 535012
251 115 535015
251 115 535016

INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF COMMERCIAL BANK OF ETHIOPIA - (Continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A. Group and consolidation

The scope of our Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope on the audit work at all companies operating within the Group.

Our audit work was executed at levels of materiality applicable to each individual entity which were lower than Group materiality. At the Bank level we also tested the consolidation process and carried out analytical procedures.

B. Loans and advances

There are risks that loans and advances may be given without proper managerial approval; may not be accurately recorded; do not exist; may not be recorded at appropriate values; and all bad and doubtful balances may not have been provided for written off. In our response to these risks, we assessed the reasonableness of the design of the system of internal control by enquiring of the relevant Bank personnel and reviewing the documented system developed by the Bank. We tested this system in order to confirm our understanding of it. We identified the preventive and detective controls. We checked a sample of selected transactions covering the whole year to see that all controls were exercised on all transactions. For a sample of disbursements made during the year, we checked the approval of appropriate level of management and checked that all formalities necessary before disbursement of loans and advances had been fulfilled. We test checked loan agreements and legal documents to verify the terms and conditions of loans and advances. We obtained an analysis of loans and verified that they had been classified in correct categories and we considered the value of collateral available against each loan for calculating the provision for doubtful loans and advances. Our testing did not identify major weakness in the design and operation of controls that would have required us to expand the nature or scope of our planned detailed test work. Overall, we found no major concerns in respect to the completion of formalities or the recording of loans and advances at appropriate values.

asc

INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF COMMERCIAL BANK OF ETHIOPIA - (Continued)

Responsibilities of the Director and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

asc

INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF COMMERCIAL BANK OF ETHIOPIA - (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements - (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is WoizeroBanchiayehuTamirat.

Audit Services Corporation

Date 27 December 2023

asc

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements of Commercial Bank of Ethiopia ("The Group"), comprising the consolidated statements of financial position as at 30 June 2023, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended and the notes to the financial statements , which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS).

To enable the Directors to meet those responsibilities, the Board of Directors (the "Board") and management sets standards and management implements systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

To the best of their knowledge and belief, based on the above, the Directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review. The Directors have reviewed the performance and financial position of the Group to the date of signing of these financial statements and its prospects based on prepared budgets, and are satisfied that the Group is a going concern and, therefore, have adopted the going concern assumption in the preparation of these consolidated financial statement.

Approval of the annual financial statements

The financial statement is approved by the Board of Directors on December 27, 2023 in accordance with Bank Corporate GovernanceDirective No SBB/71/2019, National Bank of Ethiopia.

Signed on behalf of the Directors by:

Ato Teklewold Atinafu Board Chairperson	Ato Abie Sano President

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023 (IN ETHIOPIAN BIRR)

		For the Year Ended 30 June	
		2023	2022
	Notes		
Interest income	7	87,823,861,178	82,180,599,187
Interest expense	7	(45,674,380,732)	(38,713,921,403)
Net interest income		**42,149,480,446**	**43,466,677,784**
Impairment losses on financial instruments	10 &11	(7,995,398,404)	(25,735,663,935)
Net interest income after provisions		**34,154,082,042**	**17,731,013,850**
Gain/loss on foreign currency transactions		3,309,314,832	3,695,683,736
Equity investments in associates	14	47,052,414	43,536,142
Non-interest income	8	27,736,755,393	32,077,541,394
Non-interest expense	8	(43,137,140,535)	(31,727,179,518)
Profit before tax		**22,110,064,145**	**21,820,595,603**
Income tax	25	(4,673,432,346)	(5,327,844,443)
Profit for the year		**17,436,631,798**	**16,492,751,161**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability	24	(184,982,370)	(679,867,759)
Related tax	25	55,494,711	203,960,328
- Unrealized (loss)/gain arising from measurement at fair value	25 &34	154,836,399	122,860,391
Related tax	25	(46,450,920)	(36,858,117)
		(21,102,180)	**(389,905,158)**
Items that are or may be reclassified to profit or loss:			
financial assets			
Foreign currency translation differences for foreign operations		1,269,859	26,508,427
		1,269,859	**26,508,427**
Other comprehensive income, net of tax		**(19,832,320)**	**(363,396,731)**
Total comprehensive income		**17,416,799,478**	**16,129,354,430**

The accompanying notes are an integral part of these consolidated financial statements.

-------------------------------- Board Chairperson

--------------------------------- President

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023
(IN ETHIOPIAN BIRR)

	Note	30 June 2023	30 June 2022
Assets			
Cash and cash equivalents	9	184,664,053,906	126,144,427,694
Debt & equity securities	10	742,255,592,299	697,032,955,844
Loans and advances to customers, net	11	329,278,708,327	293,331,457,302
Loans to micro-finance institutions, net	12&36	1,157,509,155	321,434,341
Receivables	13	3,435,075,376	3,250,829,651
Investments in associates	14&38	410,773,292	363,720,878
Non-current assets held for sale	15	27,014,139	859,863,419
Investment property	16	544,592	563,187
Property, plant and equipment, net	17	19,163,873,342	14,525,634,452
Intangible assets	18	765,802,372	447,424,926
Other assets	19	12,189,419,675	10,755,196,142
Right of use asset	20	4,607,014,164	4,336,893,979
Deferred tax assets	25	7,931,001,270	6,199,098,365
Total assets		**1,305,886,381,909**	**1,157,569,500,179**
Liabilities			
Deposits due to other banks		1,708,903,425	1,279,768,316
Customers' deposits	21	1,052,782,471,633	889,662,377,195
Current tax liabilities	25	6,389,765,083	7,306,693,187
Provisions	22	2,522,973,672	2,656,604,962
Finance lease obligations	20	597,986,030	568,633,265
Employee benefits	23	12,236,608,600	9,584,916,621
Other liabilities	24	155,004,289,398	174,994,524,604
Total liabilities		**1,231,242,997,842**	**1,086,053,518,151**
Equity			
Capital	26	40,000,000,000	40,000,000,000
Legal reserve	26	23,792,522,436	19,411,191,215
Capital reserve			249,632,382
Statutory reserve	26	90,827,390	1,756,847,304
CBE NOOR reserve	26	24,105,344	19,412,058
Fair value reserve	26	289,390,679	181,005,199
Foreign currency translation reserve	26	(29,102,090)	(233,187,639)
Accumulated profit or loss	26& 24	12,364,122,991	11,899,022,042
Re measurement of defined benefit liability	26	(1,888,482,683)	(1,767,940,532)
Total equity		**74,643,384,068**	**71,515,982,029**
Total liabilities and equity		**1,305,886,381,909**	**1,157,569,500,179**

The accompanying notes are an integral part of these consolidated financial statements.

-------------------------------- Board Chairperson

-------------------------------- President

COMMERCIAL BANK OF ETHIOPIA

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023 (IN ETHIOPIAN BIRR)

	Capital	Legal Reserve	Capital Reserve	Statutory Reserve	CBE NOOR Reserve	Fair value Reserve	Foreign Currency Translation Reserve	Accumulated Profit or Loss	Remeasure-ment of De-fined Benefit Liability	Total Equity
Balance as of 30 June 2022	**40,000,000,000**	**19,411,191,215**	**249,632,382**	**1,756,847,304**	**19,412,058**	**181,005,199**	**(233,187,639)**	**11,899,022,042**	**(1,767,940,532)**	**71,515,982,029**
Opening adjustment										
Profit for the year								17,436,631,798		**17,436,631,798**
Other comprehensive income						108,385,480			(120,542,151)	**(12,156,671)**
Transfer to capital reserve			(249,632,382)							**(249,632,382)**
Transfer to/(from) CBE NOOR reserve					4,693,286					**4,693,286**
Transfer to/(from) legal reserve		4,381,331,221						(4,381,331,221)		
Transfer to/(from) Statutory reserve				(1,666,019,914)						**(1,666,019,914)**
Gain/Loss on foreign exchange							204,085,549			**204,085,549**
Accumulated profit or loss								(12,590,199,628)		**(12,590,199,628)**
Balance as of 30 June 2023	**40,000,000,000**	**23,792,522,436**		**90,827,390**	**24,105,344**	**289,390,679**	**(29,102,090)**	**12,364,122,991**	**(1,888,482,683)**	**74,643,384,069**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023 (IN ETHIOPIAN BIRR) - (Continued)

	Capital	Legal Reserve	Capital Reserve	Statutory Reserve	CBE NOOR Reserve	Fair Value Reserve	Foreign Currency Translation Reserve	Accumulated Profit or Loss	Remea-surement of Defined Benefit Liability	Total Equity
Balance as of 30 June 2021	**40,000,000,000**	**15,263,362,142**	**218,603,959**	**236,337,497**	**6,474,853**	**217,863,316**	**(302,625,994)**	**(385,816,812)**	**(1,427,661,978)**	**53,826,536,984**
Opening adjustment								12,020,383,786		**12,020,383,787**
Profit for the year								16,492,751,161		**16,492,751,161**
Other comprehensive income						(36,858,117)			(340,278,553)	**(377,136,670)**
Transfer to capital reserve			31,028,423					(31,028,423)		
Transfer to/(from) CBE NOOR reserve					12,937,205					**12,937,205**
Transfer to/(from) legal reserve		4,147,829,073						(4,147,829,073)		
Transfer to/(from) Statu-tory reserve				1,520,509,806						**1,520,509,806**
Loss on foreign exchange							69,438,355	(69,438,355)		
Accumulated profit or loss								(11,980,000,242)		**(11,980,000,242)**
Balance as of 30 June 2022	**40,000,000,000**	**19,411,191,215**	**249,632,382**	**1,756,847,304**	**19,412,058**	**181,005,199**	**(233,187,639)**	**11,899,022,042**	**(1,767,940,532)**	**71,515,982,029**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023
(IN ETHIOPIAN BIRR)

	2023	2022
Cash Flows From Operating Activities		
Profit before tax	**22,110,064,145**	**21,820,595,603**
Adjustment		
Impairment of loans and advance and debt securities	40,851,157,658	25,692,687,336
Provision for unutilized OD, LC and guarantee	(9,809,846)	9,498,974
Reduction of allowance for placement with other banks	133,480,534	858,062,105
Provision against non-current asset held for sale	(155,889,602)	87,753,363
Depreciation and amortization	3,450,525,607	3,459,790,158
Income from associate recognized in profit or loss	(47,052,414)	(43,536,142)
Loss (Gain) on disposal of property, plant and equipment	(10,831,330)	(10,222,760)
Loss (Gain) on disposal of NCA heald for sale	(91,152,663)	(2,009,685)
Finance lease charge	37,977,304	7,808,620
	66,268,469,392	**51,880,427,572**
Movement in working capital		
Change In debt and equity securities	(50,150,342,938)	(148,707,323,909)
Change in loans and advances	(72,551,940,614)	(35,885,601,354)
Change in receivables	(1,556,708,403)	6,069,083,110
Change in non current asset held for sale	(88,271,374)	
Change in other assets	(1,877,890,927)	1,442,471,396
Change in restricted fund		(13,263,965,888)
Change in customers' deposits	163,124,787,724	154,379,330,907
Change in provisions	(123,821,444)	1,119,095,500
Change in employee benefits	2,466,490,924	2,508,128,167
Change in other liabilities	(27,421,943,617)	(4,072,831,090)
	78,088,828,723	**15,468,814,412**
Cash generated from operations		
Income taxes paid	(7,250,110,623)	(6,128,368,299)
Net cash generated by operating activities	**70,838,718,099**	**9,340,446,113**
Cash Flows From Investing Activities		
Payments for property, plant and equipment	(6,306,722,968)	(3,241,121,743)
Proceeds from disposal of property, plant and equipment	13,624,560	17,316,746
Proceeds from disposal of NCA held for sale	1,168,162,919	(10,120,323)
Payments for Investments		(43,059,314)
Payment for intangibles	(478,100,029)	(465,108,060)
Payment right of use assets	(1,706,751,581)	(1,513,382,990)
Net cash used in investing activities	**(7,309,787,099)**	**(5,255,475,684)**
Cash Flows From Financing Activities		
Dividend paid	(11,899,022,042)	(9,186,092,661)
Finance lease obligation paid	(197,086,725)	(164,288,457)
Net cash outflow from financing activities	**(12,096,108,766)**	**(9,350,381,117)**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023
(IN ETHIOPIAN BIRR) - (Continued)

	2023	2022
Increased (decrease) in cash and cash equivalents	**51,432,822,235**	**(5,265,410,689)**
Unrealized gain (losses) arising from change in foreign currency exchange rates	**1,419,281,706**	**923,296,103**
Cash and cash equivalents at the beginning of the year	65,793,264,174	70,135,378,760
Cash and cash equivalents at the end of the year	**118,645,368,115**	**65,793,264,174**
Cash in hand	16,389,972,409	10,644,872,258
Balance with National Bank of Ethiopia	73,000,355,995	10,332,263,712
Treasury bills	6,913,600,000	23,765,348,516
Placement with other banks	24,050,343,136	22,330,548,003
Deposit due to other banks	(1,708,903,425)	(1,279,768,316)
Cash and cash equivalents	**118,645,368,115**	**65,793,264,174**

(1) REPORTING ENTITY

Commercial Bank of Ethiopia (the Bank) is a financial institution established in 1942 as State Bank of Ethiopia and later incorporated as a limited liability public enterprise pursuant to the laws of the Governement of Ethiopia on 16 December 1963 for an indefinite time period as a holding Bank.

The Bank's registered office is in Addis Ababa, Ethiopia and it has 1,939 branches.

(2) BASIS OF CONSOLIDATION

The Bank has subsidiaries in Ethiopia, the Republic of Djibouti and the Republic of South Sudan. The consolidated financial statement incorporates the financial statements of the Bank and four entities controlled by the Bank- its subsidiaries (together referred to as the Group or individually as Group entities). Control is achieved where the Bank has the power to govern the financial and operation policies of an entity so as to obtain benefits from its activities.

(3) BASIS OF PREPARATION

(a) Statement of Compliance

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the following significant items:

1. Equity instruments designated at fair value through other comprehensive income;
2. Non-current assets held for sale measured at lower of their carrying amounts and fair value less costs to sell; and
3. The liability for defined benefit obligations is recognized as the present value of the defined obligation, plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.

(c) Use of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses, including the determination of the best way of presenting information on each page of the Group's financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements included in the following note:

(3) BASIS OF PREPARATION - (Continued)

(c) Use of Judgments and Estimates - (Continued)

Judgments - (Continued)

Note 4(a) – determination of control over investees.
Management used the control model under IFRS 10, to determine whether the control indicators set out in note 4(a) indicate that the Bank controls a trust, an investment fund or an entity without ownership interest.

Assumptions and Estimation Uncertainties

Note 4((c) and (l)) – identification and measurement of impairment for financial instruments;
Note 4(g) and note 4(k) – useful lives of tangible and intangible assets;
Note 4(o) – measurement of defined benefits obligations: key actuarial assumptions;
Note 4(n) and note 4(u) – recognition and measurement of provisions and contingencies;
Note 4(t) – recognition of deferred taxes; and
Note 4(c) vii) Fair value measurement of financial instruments.

Information on assumptions and uncertainty of estimates posing a significant risk of resulting in a material adjustment is presented as follows:

(d) Classification and Impairment of Financial Assets

The classification of financial assets includes the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL).

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4(c)(viii) which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 4(c)(viii).

(e) Deferred Tax

The Group is subject to income tax under different jurisdictions. Estimates are made through a tax projection for determining the provision for income taxes and liabilities. When the final tax outcome is

(3) BASIS OF PREPARATION - (Continued)

(e) Deferred Tax - (Continued)

different from the amounts that were recorded, differences will impact the provision for income taxes and deferred taxes in the period in which such determination is made (See Note 4(t)).

(4) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this financial statement.

(a) Details of Consolidation

i. Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls a subsidiary if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements s of subsidiaries, as described below, and are included in the financial statements s from the date on which control commences until the date when control ceases.

The Bank's subsidiaries are as follows:

Name	Principal Place of Business	30 June 2023	30 June2022
Commercial Nominees PLC	Federal Democratic Republic of Ethiopia	100%	100%
Commercial Bank of Ethiopia- South Sudan Limited	The Republic of South Sudan	100%	100%
Commercial Bank of Ethiopia- Djibouti Limited	The Republic of Djibouti	100%	100%
Bole PrintingEnterprize	Federal Democratic Republic of Ethiopia	100%	100%

ii. Associates

Associates are all entities over which the Bank has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income (OCI) is reclassified to profit or loss as appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss. When the Group's share of losses in an associate equal or exceeds its interest in the associate, including other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the Bank and its associate are recognized in the Bank's financial statements only to the extent of unrelated parties' interests in the associates.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(a) Details of Consolidation - (Continued)

iii. Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign Currency

(i) Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group's entities at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

This consolidated financial statement is presented in Ethiopian Birr ("ETB"), which is the Group's functional currency. The loans granted and liabilities contracted are in Ethiopian Birr, which is the currency that predominates in the economic environment where the Group operates. Similarly, the main cash flows for settled goods and services, taxes and other obligations are in Birr.

For entities incorporated in Ethiopia the legal currency is the Ethiopian Birr; whereas for the entities incorporated in the Republic of South Sudan the legal currency is the South Sudanese pound while Djibouti Franc is the legal currency in the Republic of Djibouti.

(ii) Foreign Operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated into Ethiopian Birr (ETB) at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Ethiopian Birr (ETB) using an average rate for the period.

Foreign currency differences are recognized in other comprehensive income (OCI), and accumulated in the foreign currency translation reserve.

(c) Financial Assets and Financial Liabilities

(i) Recognition and Initial Measurement

The Group initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date on which the Group becomes a party to the contractual provision of the instrument.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(i) Recognition and Initial Measurement - (Continued)

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification and Measurement

Classification and Measurement of Financial Assets

On initial recognition, financial assets are classified into one of the following measurement categories:
- Amortisedcost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);
- Elected at fair value through other comprehensive income (equities only); or
- Designated at FVTPL.

Financial assets include both debt and equity instruments.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:
- Amortisedcost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(ii) Classification and Measurement - (Continued)

Classification of debt instruments is determined based on:
(i) The business model under which the asset is held; and
(ii) The contractual cash flow characteristics of the instrument.

Business Model Assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Group's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment Whether Contractual Cash Flows Is Solely Payments of Principal and Interest

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(ii) Classification and Measurement - (Continued)

Assessment Whether Contractual Cash Flows Is Solely Payments of Principal and Interest - (Continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leveragefeatures;
- Prepayment and extensionterms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Non-interest income in the Statement of Profit or Loss and Other

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(ii) Classification and Measurement - (Continued)

Assessment Whether Contractual Cash Flows Is Solely Payments of Principal and Interest - (Continued)

Debt instruments measured at FVOCI - (Continued)

Comprehensive Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income on an average cost basis.

Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:
i) Are held for trading purposes;
ii) Are held as part of a portfolio managed on a fair value basis; or
iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Equity instruments

Equity instruments are classified into one of the following measurement categories:
- Fair value through profit or loss (FVTPL); or
- Elected at fair value through other comprehensive income (FVOCI).

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(ii) Classification and Measurement - (Continued)

Assessment Whether Contractual Cash Flows Is Solely Payments of Principal and Interest - (Continued)

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognized immediately in the Statement of profit or loss and other comprhensive income as part of Non-interest income. Subsequent to initial recognition the changes in fair value are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Equity instruments measured at FVOCI

At initial recognition, there is an irrevocable option for the Group to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer-term investment purposes. This election is made on an instrument-by-instrument basis and is not available to equity instruments that are held for trading purposes.

Gains and losses on these instruments including when derecognized/sold are recorded in OCI and are not subsequently reclassified to the Statement of Profit or Loss and Other Comprehensive Income. As such, there is no specific impairment requirement. Dividends received are recorded in Interest income in the Statement of Profit or Loss and Other Comprehensive Income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the Statement of Profit or Loss and Other Comprehensive Income on sale of the security.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Classification and Measurement of Financial Liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial Assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(iii) Derecognition - (Continued)

Financial Assets - (Continued)

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities
The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of Financial Assets and Financial Liabilities

Financial Assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

Financial Liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

(v) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intents either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Amortized Cost Measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(vii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

There is no active market or observable prices except for foreign currency market to measure the Group's financial assets or financial liabilities at fair value. Fair value of financial assets and financial liabilities is determined at each reporting date for disclosure in the financial statement purposes only.

(viii) Impairment

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to life time ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 3(a)).

Loss allowances for lease receivables are always measured at an amount equal to life time ECL.The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECLs are the portion of ECL that results from default events on a financial instrument that is possible within the 12 months after the reporting date.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(viii) Impairment - (Continued)

Measurement of ECL - (Continued)

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover. See also Note 4(a).

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 4(c)(viii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;or
- In Existanceof an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The rating agencies' assessments of credit worthiness;
- The country's ability to access the capital markets for new debt issuance;

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(c) Financial Assets and Financial Liabilities - (Continued)

(viii) Impairment - (Continued)

Credit-impaired Financial Assets - (Continued)

- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assetsmeasured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(d) Cash and Cash Equivalents

Cash comprise cash on hand, placements with other banks, cash reserve with the National Bank of Ethiopia, payment and settlement account with the National Bank of Ethiopia and Cash in Transit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in values.

Cash and cash equivalents are carried at amortized cost in the statement of financial position

(e) Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(f) Debt Securities

Government securities and coupons and corporate bonds are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss. They are measured at amortized cost-plus accrued interest.

(g) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and cumulative impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within operating and administrative expenses in profit or loss.

(ii) Subsequent Costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Minor ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation is charged on the straight –line basis at the following rates per annum.

	%
• Building	5
• Computer equipment	25
• Fixtures, fittings and equipment	20
• Motor vehicles	20

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Minor repairs and maintenance costs are expense as incurred.

(h) Inventory

The Group maintains materials or supplies to be consumed in the rendering of services as inventory and measure at lower of cost or Net realizable value.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(i) Leases - (Continued)

(i) Group Acting as a Lessee - (Continued)

The Group recognizes a right-of-use asset at cost and a lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease; if that rate cannot be readily determined, the Group used the lessee's incremental borrowing rate.

After the commencement date, the Group measures the right-of-use asset applying a cost model (cost less any cumulative depreciation and any cumulative impairment). In the case of the lease liability, the Group measure it by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made, and re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. The Group exempt to apply the requirement for short term leases and leases for which the underlying asset is of low value.

(ii) Bank Acting as a Lessor – Finance Leases

Where the Group is the lessor, the Group classifies each of its leases as either an operating lease or a finance lease.

Finance Lease

With a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within receivable.

The Group recognizes assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. After the initial measurement, the Group recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Operating Lease

A lease agreement that does not transfer substantially the entire risks and rewards incidental to the ownership of the asset to the lease is classified as an operating lease.

The Group recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Group applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

(j) Investment Property

Investment property is property held either to earn rental income, capital appreciation, or both, and is not intended to be sold in the normal course of business. All investment properties are recognized at cost less accumulated depreciation and cumulative impairment losses.

When the use of a property changes such that it is reclassified as property plant and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting.

(k) Non-current Assets Held for Sale

Non-Current assets held for sale correspond to Acquire assets such as real estate and moveable property foreclosed in the absence of repayment of loans due to the Group. This type of non-current

(4) SIGNIFICANT ACCOUNTING POLICIES -(Continued)

(k) Non-current Assets Held for Sale - (Continued)

available-for-sale assets are expected to be recovered mainly through sale and not through continued use.

The value of these assets is updated through an internal appraisal made within three months of the date on which the Group acquires ownership; therefore, if the appraisal value is less than carrying value, a valuation reserve is created and charged to the year's income.

Subsequently, the available-for-sale assets or group of assets are recorded at the lower of their carrying amount and the fair value less costs to sell. Impairment losses in the initial classification of available-for-sale assets and subsequent gains or losses are recognized in profit or loss.

If the sale is paid up-front and the amount recovered exceeds the carrying amount, the difference is directly recorded in the year's income. If it is a sale to be paid in installments, and the amount to be recovered exceeds the carrying amount, the difference is accounted for as deferred income, and accrued as installments are collected. If the recovered amount is less than the carrying amount, the loss is charged to income, irrespective of the sale is paid up-front or in installments.

(l) Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortization and any impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is four years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted as found appropriate.

(m) Impairment of Non-financial Assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Unit CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(m) Impairment of Non-financial Assets - (Continued)

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Deposits from Banks and Customers

Deposits and borrowings are the Group's sources of debt funding. These liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(o) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) Employee Benefits

i- Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan at the termination of the employment relationship, other than a defined contribution plan. The Group accounts not only its legal obligation under the formal term described above, also for any constructive obligation that arises from the Group ´s customary practices. A customary practice gives rise to a constructive obligation where the Group has no realistic alternatives but to pay employee benefits.

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs are deducted. The discount rate is the yield at the reporting date on governmental bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested.

To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the period in which they arise.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(p) Employee Benefits - (Continued)

ii-Short-term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided, current wages including medical expenses, being taken into consideration.

A liability is recognized for the amount expected to be paid and includes mainly wages and salaries, bonuses, leave benefits and other allowances, and incentives as a result of past services provided by the employees, and the obligation can be estimated reliably.

iii-Termination Benefits

According to Law, in case of unjustified dismissal, employers are obligated to pay to their employees compensation based on the years of service.

(q) Legal Reserve

The legal reserve is a statutory reserve required by the regulators. TheBank has to transfer annually 25% of its annual net profit as a legal reserveuntil such reserve equals its capital. When the legal reserve equals the capital of the Bank, the amount to be transferred to the legal reserve shall be 10% of the annual net profit. For Commercial Nominees PLC and Bole printintinginterprise PLC 5% of the net profit until the accumulated legal reserve balance amounts to 10% of the issued share capital according to commercial code of Ethiopia Article 454.

(r) Revenue and Expense Recognition

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial assets; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit adjusted effective interest rate is calculating using estimated future cash flows including incurred credit losses.

The calculation of the effective interest rate includes transactions costs, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Gross Carrying Amount and Amortised Cost

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance).

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(r) Revenue and Expense Recognition - (Continued)

Calculation of Interest Income and Expenses

In calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation of Interest Income and Expenses

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL

(s) Fees and Commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income relate mainly to commissions on local money transfers (LMTS), guarantee commission, outward remittance, card charges, and commission on import letter of credit– are recognized as the related services are performed.Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

The Group recognises revenue when satisfy its performance obligation. The Group's revenue from contracts with customer is measured based on the consideration specified in a contract with a customer. It is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(t) Dividend Income

Dividend income is recognized when the right to receive income is established. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

(u) Income Tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

(a) Current Tax

The current income tax is the expected tax payable on the taxable income for the year and any adjustment to the tax payable in respect of previous years. The amount of current tax payable is the best estimate of tax amount expected to be paid or received that reflects the uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

(b) Deferred Tax

Deferred tax is measured under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between such values. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to temporary differences when recovered or settled in each of the jurisdictions where the subsidiaries of the Bank operate, based on laws enacted or substantially enacted as of the reporting date.

No deferred taxes are recognized for the initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither accounting nor taxable income.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority and to the same fiscal entity or on different tax entities, but the intent is to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which such can be reversed. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(v) Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the NOTES TO THE SEPARATE FINANCIAL STATEMENTS. Contingent revenues, earnings or assets are not recognized until realization is assured.

(w) New Standards, Amendments and Interpretations

A number of new standards, amendments to standard and interpretations are not yet effective for the period ended 30 June 2023 and have not been applied in preparing these financial statements. These are summarized as follows:

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(w) New Standards, Amendments and Interpretations - (Continued)

Standards / Interpretations	Effective for Annual Periods Beginning on or After
Onerous Contracts: Cost of Fulfilling a Contract (IAS 37 amendment)	1 July 2022
Annual Improvements to IFRS Standards (2018 – 2020) (IFRS 1, IFRS 9, IFRS 16 and IAS 41 amendments)	1 July 2022
Property, Plant and Equipment: Proceeds before Intended Use (IAS 16 amendment)	1 July 2022
Reference to the Conceptual Framework (IFRS 3 amendment)	1 July 2022
Insurance Contracts (IFRS 17)	1 July 2023
Insurance Contracts (IFRS 17 amendments)	1 July 2023
Classification of liabilities as current or non-current (IAS 1 amendment)	1 July 2023
Definition of Accounting Estimates (IAS 8 amendment)	1 July 2023
Disclosure Initiative: Accounting Policies (IAS 1 and IFRS Practice Statement 2 amendment)	1 July 2023
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (IAS 12 amendment)	1 July 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IFRS 10 and IAS 28 amendment)	Deferred indefinitely by amendments made in December 2015

IFRS 17 is not applicable to the business of the Bank and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, issued by the International Accounting Standards Board, clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprises both:

- The incremental costs – e.g. direct labour and materials; and
- An allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The amendments apply for annual reporting periods beginning on or after 1 July 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments will be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives will not be restated. Earlier application is permitted.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(w) New Standards, Amendments and Interpretations - (Continued)

The Bank will make an assessment of the impact of this adoption.

Annual Improvements to IFRS Standards 2018-2020

IFRS 1 First-time Adoption of International Financial Reporting Standards	The amendment permits a subsidiary (as a first-time adopter of IFRS that applies IFRS later than its parent) that applies IFRS 1. D16(a) to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
IFRS 9 Financial Instruments	The amendment clarifies that for the purpose of performing the ''10 per cent test" for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
IFRS 16 Leases	The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
IAS 41 Agriculture	The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement.

The amendments are effective for annual reporting periods beginning on or after 1 July 2022 with earlier application permitted.

This did not have an impact on the Group's financial statements.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Proceeds from selling items before the related item of property, plant and equipment is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.

Companies will therefore need to distinguish between:

- Costs associated with producing and selling items before the item of property, plant and equipment is available for use; and
- Costs associated with making the item of property, plant and equipment available for its intended use.

Making this allocation of costs may require significant estimation and judgement.
The amendments apply for annual reporting periods beginning on or after 1 July 2022, with earlier application permitted. The amendments apply retrospectively, but only to items of property, plant and

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(w) New Standards, Amendments and Interpretations - (Continued)

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) - (Continued)

equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

The standards are not expected to have a material impact on the Group's current or future reporting periods and on foreseeable future transactions.

Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendment has:

- Updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- Added to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- Added to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendment is effective for annual periods beginning on or after 1 July 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

IFRS 17 Insurance Contracts (and Its Related Amendments)

IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements.

The entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements.

The standard is effective for annual periods beginning on or after 1 July 2023. Early adoption is permitted only if the entity applied IFRS 9.

These standards are not expected to have a material impact on the Group's current or future reporting periods and on foreseeable future transactions.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(w) New Standards, Amendments and Interpretations - (Continued)

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the Board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

There is limited guidance on how to determine whether a right has substance and the assessment may require management to exercise interpretive judgement.

The existing requirement to ignore management's intentions or expectations for settling a liability when determining its classification is unchanged.

The amendments are to be applied retrospectively from the effective date.

The Bank will make an assessment of the impact of this adoption.

Definition of Accounting Estimates (Amendments to IAS 8)

Distinguishing between accounting policies and accounting estimates is important because changes in accounting policies are generally applied retrospectively, while changes in accounting estimates are applied prospectively.

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates;
- Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarified that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The effects of changes in inputs and/or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The amendments are effective for periods beginning on or after 1 July 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.The standards are not expected to have a material impact on the Group's current or future reporting periods.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(w) New Standards, Amendments and Interpretations - (Continued)

Disclosure Initiative: Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

Making information in financial statements more relevant and less cluttered has been one of the key focus areas for the International Accounting Standards Board (the Board).

The Board has issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures. The key amendments to IAS 1 include:

- Requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed;
- Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements;
- Accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- Accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- The amendments clarify that if an entity discloses immaterial accounting policy information such information shall not obscure material accounting policy information.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures. The amendments are consistent with the refined definition of material.

The amendments are effective from 1 July 2023 but may be applied earlier.

The Bank will make an assessment of the impact of this adoption.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendment to IAS 12)

The amendment clarifies that the initial recognition exemption does not apply to transactions that give rise to equal and offsetting temporary differences such as leases and decommissioning obligations. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision
The Bank will make an assessment of the impact of this adoption.

Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

(4) SIGNIFICANT ACCOUNTING POLICIES - (Continued)

(w) New Standards, Amendments and Interpretations - (Continued)

Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) - (Continued)

When a parent loses control of a subsidiary in a transaction with an associate or joint venture (JV), there is a conflict between the existing guidance on consolidation and equity accounting.

Under the consolidation standard, the parent recognises the full gain on the loss of control. But under the standard on associates and JVs, the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV. In either case, the loss is recognised in full if the underlying assets are impaired.

In response to this conflict and the resulting diversity in practice, on 11 September 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

A number of new standards and ammendments to satndards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted, however, the Group has not yet early adopted the new and amended standards in preparing these consolidated financial satements.

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Classification of Liablities as Current or Non current (Amendments to IAS 1).
- IFRS 17 Insurance contracts and ammendments to IFRS 17 Insurance Contracts.
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16).
- Definition of Accounting estimates (Amendments to IAS 8).

In addition to this, the bank will include all new or amended standards and their possible impact on the consolidated financial statements.

(5) FINANCIAL RISK REVIEW

The Group is exposed to the following financial risks from financial instruments, for which it conducts regular risk management efforts:

- Credit risk
- Liquidity risk
- Market risk
- Capital management
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, and Company's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout separate financial statement.

Risk Management Framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of theBank's risk management framework. The Board has established the Loan and Risk Review Committee (LRRC) through the Loan and Risk Review Committee charter, which is responsible for providing the standards and minimum parameters to be followed in managing the bank's exposure to risk. Besides, it is also responsible for developing and monitoring effectiveness of the Bank´s risk management policies and the degree of compliance to national and international regulatory standards.

(5) FINANCIAL RISK REVIEW - (Continued)

Risk Management Framework - (Continued)

The LLRC reports regularly to the Board of Directors on its activities.

The Bank´s risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to those limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank´s activities. The Bank through its training management standards and procedures aims to develop a disciplined and constructive control environment in which all the employees understand their roles and obligations.

The Board Audit Committee of Commercial Bank of Ethiopia oversees how management monitors compliance with the Bank´s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank´s Board Audit Committee is assisted in its oversight role by Internal Audit function. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank´s Audit Committee.

In addition, the Bank is subject to the regulations of the National Bank of Ethiopia with respect to, among others matters, comprehensive risk management, liquidity and capitalization.

(a) Credit Risk

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. See accounting policy on note 4(c) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

Risk Classification Amounts in ETB	12-Month ECL Stage 1	Lifetime ECL not Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Purchased Credit Im-Paired	Total 30 June 2023	Total 01 July 2022
Loans and advances to customers and microfinance institutions (at amortised cost)						
Stage 1	196,359,882,118	-	-	-	**196,359,882,118**	**136,568,850,950**
Stage 2	-	151,204,853,309	-	-	**151,204,853,309**	**170,743,033,726**
Stage 3	-	-	18,640,096,830	-	**18,640,096,830**	**19,129,654,373**
Gross carrying amount (includes accrued interest)	**196,359,882,118**	**151,204,853,309**	**18,640,096,830**	**-**	**366,204,832,257**	**326,441,539,050**
Expected credit loss allowance (excluding off balance sheet)	6,837,427,213	15,034,754,554	13,896,433,010	-	**35,768,614,776**	**32,788,647,408**
Carrying amount	**189,522,454,905**	**136,170,098,756**	**4,743,663,820**	**-**	**330,436,217,481**	**293,652,891,643**
Investment securities - debt instruments (at amortised cost)						
Stage 1	752,448,001,102	-	-	-	**752,448,001,102**	**702,743,189,857**
Stage 2	-	-	-	-	**-**	**-**
Stage 3	-	-	-	-	**-**	**-**
Gross carrying amount (includes accrued interest)	**752,448,001,102**	**-**	**-**	**-**	**752,448,001,102**	**702,743,189,857**
Expected credit loss allowance	11,161,574,425				**11,161,574,425**	**6,233,867,941**
Carrying amount	741,286,426,678				**741,286,426,678**	**697,032,955,844**
Other financial assets(at amortised cost)						
Stage 1	175,788,426,592	-	-	-	**175,788,426,592**	**122,176,303,129**
Stage 2		-	-	-		
Stage 3		-	-	-		
Gross carrying amount (includes accrued interest)	**175,788,426,592**				**175,788,426,592**	**122,176,303,129**
Expected credit loss allowance	2,935,052,007	-	-	-	**2,935,052,007**	**1,429,108,796**
Carrying amount	**172,853,374,585**	**-**	**-**	**-**	**172,853,374,585**	**120,747,194,333**

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

No	Grade	Score	Rating	Status
1	Grade 1	>= 85 %	Exceptionally low risk	Bankable
2	Grade 2	70 – 84 %	Very low risk	Bankable
3	Grade 3	60 – 69.9 %	Low risk	Bankable
4	Grade 4	50 – 59.9 %	Moderate risk	Bankable
5	Grade 5	40 – 49.9 %	Potential risk	Exceptionally bankable
6	Grade 6	30 – 39.9 %	High risk	Very exceptional bankable
7	Grade 7	25 – 29.9 %	Very high risk	Not bankable
8	Grade 8	< 25 %	Default risk	Not bankable

The term bankable indicates that the borrower's loan request is feasible and acceptable by the Bank, after passing through rigorous business and risk analysis.

CBE classifies its credit customers in order to identify those who contribute high value to its profitability and growth and thereby enhance service quality and customer satisfaction. The classification is made based on the result of the analysis of parameters that are allotted with weight such as income generated from the customer (30%), total credit exposure (20%), customer's credit risk grade (25%) and sales volume registered (20%).

Customer Classification	Score (X)	
	New Customer/70	**Existing Customer/100**
Business	55% ⩽ X ⩽ 70%	80% ⩽ X ⩽ 100%
Corporate	35% ⩽ X<55%	60% ⩽ X <100%
Commercial	X<35%	X< 60%

CBE's credit risk grading is only applicable to borrowers classified as Corporate, Business and Commercial class customers, except for new customer/newly established business. The grading parameters are mainly five that encompass sub-parameters allotted with score from 100 points.

Parameter	Weight
Financial risk/Strength of financial management system	35%
Business/Industry risk	10%
Management risk	15%
Account performance risk	25%
Customer relationship risk	15%

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

Grade 1: Loan debtors are labeled as "exceptionally low risk" borrowers at the time of the risk review period where the overall score is 85% and above.

- Loans and advances fully secured by cash and cash substitute, regardless of the loan status.
- The borrower has strong repayment capacity, excellent track records in servicing debt regularly, and is not subject to criticism.

Grade 2: They are classified as "very low risk borrowers, if they meet the following criteria during the issuance of credit risk grade.

- These borrowers are not as strong as grade 1 borrowers in terms of credit risk parameters.
- The borrower has strong repayment capacity.
- The borrower has excellent liquidity and low leverage.
- The business demonstrates consistently strong earnings and cash flows.
- The borrower has well established and strong market share.
- CBE has confidence on the management of the business.
- The loan is performing in accordance with the terms and conditions of the contract.

Grade 3: These borrowers are considered as "low risk" borrowers, being capable of meeting the following criteria.

- Not as strong as the grade 2 in terms of credit risk parameters, but the business still demonstrates consistent earnings, cash flow and have good track record.
- The borrower has adequate liquidity, cash flow and earnings.
- The borrower has acceptable share in the market.
- The business has acceptable management capability.
- The business is performing in accordance with the terms and conditions of the contract.

Grade 4: These borrowers are rated as "moderate risk" borrowers given the fact that they demonstrate the following features when the grade is issued.

- They are not as strong as Grade 3 in terms of credit risk parameters.
- The loans and advances show sign of irregularity, or have arrears (the credit facilities have been inactive).
- The borrower needs attention due to conditions affecting the business, the industry, or the economic environment.
- The borrower has above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earning.
- The borrower may incur loss.

Grade 5: They are debtors with "potential risk" witnessed by the following results from the credit risk grading analysis.

- Lower than grade 4 in terms of credit risk parameters.
- The borrower has potential weaknesses that deserve CBE's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

- The loans and advance show extended irregularities, or have the arrears (the credit facilities have been inactive).
- Severe management problem exists.
- Credit facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth and excessive leverage).

Grade 6: These are "high risk" borrowers.

- Financial condition is weak and capacity or inclination to repay is in doubt.
- These weaknesses jeopardized full settlement of credit facilities.

Grade 7: "very high risk" borrowers

- Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
- However, due to especially identifiable pending factors, such as litigation, liquidation procedures and capital injection, the asset is not yet classified as loss.

Grade 8: "default risk"

- The loan has been long outstanding with no progress in obtaining repayment or on the verge of liquidation/wind up.
- Prospect of recovery is poor and legal options have been pursued or initiated.
- Proceeds expected from the liquidation or realization of security may be awaited.
- CBE's criteria for timely write-off shall be adhered to apply.

In order to classify the outstanding loans according to the risk grade of debtor, the following assumptions are used because of the fact that retail loans are not regularly graded except at the initial stage of the credit assessment.

- Loan disbursed to Business, Corporate and Commercial customers are presented according to their risk grade from the risk grading analysis.
- Emergency staff loan, staff personal loan and staff mortgage loan are assigned grade 1 because of the fact that such loans are regularly repaid from salary account of the staff without any delinquency and arrears.

All loans and that are unrated assumed to be graded as follows:

- All ungraded Pass status retail loans are assigned with grade 2.
- All ungraded Special Mention status retail loans are assigned with risk grade 3.
- All ungraded Sub-standard status retail loans are assigned with risk grade 5.
- All ungraded Doubtful status retail loans are assigned with risk grade 6.
- All ungraded Loss status retail loans are assigned with risk grade 7.
- All loans and advances under litigation decision (ALD) are assigned with risk grade 8.

The risk grade classification and the underlying assumptions are made based on the analysis of the repayment trend of retail borrowers and default history in the Bank over the past five years.

The Bank has implemented a series of credit procedures and reports for assessing the performance of its portfolio, the requirements of provisions and, especially, for anticipating events that may affect its debtors' future condition.

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

The following table analyzes the Bank's loans, which are exposed to credit risk and its corresponding assessment according to the above risk classification:

30 June 2023				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	145,902,261,771	85,131,966,121	231,034,227,893
2	Very low risk	14,735,513,469	31,557,981,335	46,293,494,804
3	Low risk	-	24,132,774,525	24,132,774,525
4	Moderate risk	-	1,709,825,476	1,709,825,476
5	Potential risk	5,285,266,546	271,303,805	5,556,570,351
6	High risk	-	136,644,351	136,644,351
7	Very high risk	-	50,553,810	50,553,810
8	Default risk	-	18,182,004	18,182,004
Total principal		**165,923,041,786**	**143,009,231,426**	**308,932,273,212**
Interest receivable from loans				**57,272,559,044**
Provision for loan losses				**(35,768,614,776)**
Net loan				**330,436,217,481**

30 June 2022				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	146,527,304,327	32,531,713,987	179,059,018,314
2	Very low risk	14,698,998,046	26,202,465,516	40,901,463,562
3	Low risk	-	48,734,628,752	48,734,628,752
4	Moderate risk	-	8,175,539,324	8,175,539,324
5	Potential risk	5,285,266,546	2,921,346,901	8,206,613,448
6	High risk	-	993,469,553	993,469,553
7	Very high risk	-	646,653,770	646,653,770
8	Default risk	-	203,668,608	203,668,608
Total principal		**166,511,568,918**	**120,409,486,411**	**286,921,055,329**
Interest receivable from loans				**39,520,483,722**
Provision for loan losses				**(32,788,647,408)**
Net loan				**293,652,891,643**

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Amounts Arising from ECL

Inputs, Assumptions and Techniques Used for Estimating Impairment

See accounting policy in Note 4(c)(viii).

Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information an analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit Risk Grading

The Bank has applied the days past due approach to determine the credit risk grading for financial assets classified at amortised cost for purposes of estimating PDs.

Generating the Term Structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by economic sector.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether Credit Risk Has Increased Significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Determining whether Credit Risk Has Increased Significantly - (Continued)

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the days past due excedes 30 days.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Day past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD(stage 1) and lifetime PD (stage 2).

Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 4.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the originalcontractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Modified Financial Assets - (Continued)

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of Default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- The borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of Forward-looking Information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates three economic scenarios: a base case, which is the central scenario, base don available projections, and two less likely scenarios, one upside and one downside scenario, Both the upside and downside scenarios are derived from analysis of historical volatilities on each identified macroeconomic variable

The Bank applies, in modelling of forward-looking information, Ethiopian historical macroeconomic data and forecasts published by Business Monitor International (BMI), a reputable external data body.

The scenario probability weightings are derived from each segment's macroeconomic information values.

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Incorporation of Forward-looking Information - (Continued)

PD computed for ECL estimation is point-in-time. It captures all macroeconomic factors that will affect PD estimate in the future. Therefore, the impact of forward-looking indicators on PD has to been analyzed using Principal Component Analysis (PCA) in order to generate FLI adjusted PD.

The Cox proportional hazards model's exponent function is used to compute the FLI adjusters as a function of PCA coefficients and macroeconomic projections on a base, upside and downside basis. PCA coefficient values are used as base probability weights and split the difference equally for upside and downside scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 30 June 2022 included the following key indicators:

- Real GDP growth rate;
- Gross national expenditure (% of GDP);
- Real rate of interest (lending);
- Gross national savings;
- Gross national Income;
- Exports of goods and services;
- Debt servicing;
- Import of goods and services;
- Real rate of interest (time deposit);
- Gross domestic savings, and
- Official exchange rate.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated, based on statistical models, and assessed using tools tailored to the various categories of counterparties and exposures.

These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Measurement of ECL - (Continued)

against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim; counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- Credit risk gradings;
- Collateral type;
- Date of initial recognition;
- Industry; and
- Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 4(c)(viii).

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

Loss Allowance - (Continued)

	30 June 2023				30 June 2022			
Amounts in ETB	12-Month ECL Stage 1	Lifetime ECL not Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Total	12-Month ECL Stage 1	Lifetime ECL not Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Total
Loans and advances at amortised cost								
Balance at 1 July 2022	**2,133,997,383**	**16,881,959,574**	**13,772,690,451**	**32,788,647,408**	**2,622,871,066**	**286,934,507**	**8,300,252,784**	**11,210,058,356**
Transfer to 12 months ECL	4,703,429,830			**4,703,429,830**	(488,873,683)			**(488,873,683)**
Transfer to lifetime ECL not credit impaired		(1,847,205,020)		**(1,847,205,020)**		16,595,025,067		**16,595,025,067**
Transfer to lifetime ECL credit im-paired			123,742,559	**123,742,559**			5,472,437,667	**5,472,437,667**
Net remeasurement of loss allowance								
Balance at 30 June 2023	**6,837,427,213**	**15,034,754,554**	**13,896,433,010**	**35,768,614,776**	**2,133,997,383**	**16,881,959,574**	**13,772,690,451**	**32,788,647,408**
Investment securities - debt instruments (at amortised cost)								
Balance at 1 July 2022	**6,233,867,941**			**6,233,867,941**	**2,105,872,627**			**2,105,872,627**
Transfer to 12 months ECL	4,927,706,484			**4,927,706,484**	4,127,995,315			**4,127,995,315**
Net remeasurement of loss allowance								
Balance at 30 June 2023	**11,161,574,425**			**11,161,574,425**	**6,233,867,941**			**6,233,867,941**
Other financial assets (at amortised cost)								
Balance at 1 July 2022	**1,429,108,796**			**1,429,108,796**	**2,001,085,282**			**2,001,085,282**
Transfer to 12-month ECL	1,505,943,211			**1,505,943,211**	(571,976,486)			**(571,976,486)**
Transfer to lifetime ECL not credit impaired								
Net remeasurement of loss allowance								
Balance at 30 June 2023	**2,935,052,007**			**2,935,052,007**	**1,429,108,796**			**1,429,108,796**

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Default but not Impaired Loans

According to the NBE's directive No. SBB/69/2018, non-performing (defaulted) loan refers to loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual terms and conditions is in question. Loans with pre-established repayment program are non-performing (impaired) when principal and/or interest is due or uncollected for 90 consecutive days or more.

Overdrafts and other advances that do not have pre-established repayment program are non-performing (defaulted) when:

- The debt remains outstanding for 90 consecutive days or more beyond the scheduled payment date or maturity.
- The debt exceeds the borrower's approved limit for 90 consecutive days or more.
- Interest is due and uncollected for 90 consecutive days or more.
- For overdrafts,
  - The account has been inactive for 90 consecutive days or more; or
  - Deposits are insufficient to cover the interest capitalized during 90 consecutive days; or
  - The account fails to show debit balance of 5% or less from the approved limit at least once over 360 days preceding the date of loan review.

While managing credit risk, default is considered to have occurred with regard to particular obligor when either or both of the following two events have occurred.

Loans secured by cash or cash substitute guarantees and/or sources of payment that are enough to cover the carrying value are deemed default but not impaired, that means, with no losses incurred.

Restructured/Renegotiated Loans

Renegotiated loans or advances refers to loans which have been refinanced, rescheduled, rolled over, or otherwise modified at favorable terms and conditions for the borrower because of weaknesses in the borrower's financial condition or ability to repay.

Non-performing loans are restructured when the result of analysis on the obligor's financial capacity witnesses the need to modify/change the original terms and conditions of the loan contract in order to recover the outstanding loan. As per CBE's problem loans management procedure, any NPL (defaulted loan) is worked out and restructured by taking either of the following changes or combined options.

- Extension of the repayment period with the consent of the concerned parties (borrower and guarantor);
- Changing the form of the loan fully or partially (e.g. overdraft to a term loan);
- Requesting additional collateral or change of collateral;
- Cross-collateralizing multiple loans;
- Including additional covenants;
- Arranging transfer of loans from one borrower to other borrowers upon request by the borrower, based on the mutual agreement of both the borrower and the would-be buyer of the loan, when an acceptable agreement is submitted to the Bank and a new buyer of the loan is deemed to be better than the actual customer;
- Persuading owners, shareholders, and directors/managers of borrowers to enter into a personal guarantee contract with the Bank;

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

- The Bank does not encourage additional finance for the loan recovery cases. However, the Bank may approve additional loan for Grade 6 and 7 customers, if there are appropriate and concrete justifiable reasons; and
- An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy. Once a non-performing loan has been restructured, it doesn't remains in the same category of loan status as prior to the restructuring. However, the status (category) is turned to "substandard), without prejudice to the standard definition of substandard when:

  (a) Renegotiated term loans equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the following payments are made by the borrower on a consistent and timely basis in accordance with the restructured terms of the loan or advance.
    - Loans with monthly or quarterly installment payments, at least 3(three) consecutive repayments;
    - Loans with semi-annual installment repayments, at least 2(two) installments;
    - Loans with annual installment repayments, at least one repayment.

  (b) Renegotiated non-performing overdraft facilities equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the account shows at a minimum:
    - A nil balance at least once;
    - A turnover rate of once the approved limit.

Write-off Policy

The Bank determines the write-off of a loan or group of loans demonstrating non-recoverability. This determination is made after performing an analysis of the financial conditions from the date of default and the likelihood of recovering such loans.

As per the credit procedure a loan is written-off when the Bank exhausts all means to recover the outstanding loan. It is uncertain to know how long it will take to get court verdict on litigations to recover the outstanding amount of defaulted loans from other attachable properties registered in the name of the defaulters. Hence, doesn't consider time limit for write-offs. Defaulted loans are written-off immediately after exhausting all means to recover the loan.

After having fully exhausted all possible means for the recovery of loans and advances and after ascertaining that the property held as collateral does not cover the loan in full; and after having ascertained that there is no other attachable property to cover the remaining balance fully or partially, the recovery area shall compile evidence to support that the loan or part of the loan it proposes to write-off is unrecoverable.

Loan write-offs can be initiated for the following reasons:
- Absence of attachable property;
- Insolvency of the borrower;
- Declaration of bankruptcy of the borrower by a court;
- Higher cost of recovery than the realizable value of the property;
- Defects in Documentation – if the Bank has no legal ground to sue the borrower because of defects in the contract;
- Court decision; and
- Statute limitation.

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

The table below shows the gross outstanding loans past due days of payment according with the contractual schedule of payment:

Range	Loan Status	30 June 2023	30 June 2022
From 1 to 29 days	Pass	144,045,975,991	133,620,737,403
From 30 to 89 days	Special mention	150,621,884,827	138,389,733,332
From 90 to 179 days	Sub-standard	6,929,316,291	5,053,666,400
From 180 to 360 days	Doubtful	4,725,658,095	1,874,069,407
Over 360 days	Loss	2,609,438,010	7,982,740,260
Total principal		**308,932,273,213**	**286,920,946,802**
Interest receivable		**57,272,559,044**	**39,520,592,249**
Allowance for impairment		**(35,768,614,776)**	**(32,788,647,408)**
Net loan		**330,436,217,481**	**293,652,891,643**

The following table shows the credit rating of deposits in financial institutions basis of ratings afforded by credit rating agencies:

	30 June 2023	30 June 2022
Rating		
Between AA+ and AA-	2,473,748,304	1,965,639
Between A+ and A-	25,721,531,593	24,892,882,072
Between BBB+ and BBB-	2,488,112,966	4,199,556,174
Other (including unrated)	3,199,554,113	3,102,647,721
Total	**33,882,946,975**	**32,589,742,155**
Provision for loss	**4,961,498**	**5,158,642**
	33,877,985,477	**32,584,583,513**
Domestic bank account balances		
Soverign Counterparty (NBE)	134,435,607,614	58,353,915,331
Between A+ and A-		217,438,356
Between BBB+ and BBB-	133,289,022,136	58,571,353,688
Other (including unrated)	1,146,585,478	1,012,907,801
Total	**132,142,436,657**	**57,558,445,886**

The credit rating of these financial institutions, in which CBE has maintained Nostro account balance, is basically obtained from the world bankers' almanac as rated by Moody, Fitch, and Standards & Poor. The equivalent rating is used to aggregate the overall rating by these agencies.

Collateral

CBE has guarantee on loans granted, mainly Government bond and written government undertaking by the Ministry of Finance, Motor Vehicles, Buildings and other class of collaterals.

Fair value estimates are based on the value of guarantees at the time loans commitments are originated. The Bank has technical employees (appraisers) for a constant monitoring of these collaterals in order to update such fair values if it is necessary. In addition, the fair value of collateral is updated when a loan is individually assessed as impaired or by any change in conditions that the debtor request in advance and in the case of project financing, according to the progress of work.

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Collateral - (Continued)

While estimating the value of the collateral held, CBE may opt to use the cost sales comparison or income valuation approach as appropriate. Every collateralized property is insured by appropriate insurance company and they have 100% insurance policy coverage against perils related the property.

According to credit procedure of CBE, collateralized building and other real properties are revalued every five year. However, a revaluation of collateral may be undertaken at any time if either of the following conditions materializes.

- If a sudden price decline of the property held as collateral is ascertained or suspected.
- When a report is received evidencing that the property held as collateral has sustained damages or master plan changes that affects the value of the collateral.
- When noticeable construction is added to the collateral held.
- When the Bank decides to foreclose the collateral.

The table below shows the value of collateral held by CBE as a security for loans and bonds granted as at 30 June 2023 and 30 June 2022.

Fair Value of Collaterals and Guarantees		
	30 June 2023	**30 June 2022**
Ministry of Finance	783,077,455,772	722,533,716,212
Building	113,223,891,934	70,273,180,321
Machinery	12,408,313,854	11,633,340,198
Vehicle	7,083,844,833	3,100,768,056
Business mortgage	2,528,805,376	1,854,192,814
Merchandise	1,444,092,404	568,484,462
Oil seed	1,100,000,000	-
Lease right	506,585,640	186,771,584
Government bond	193,495,700	133,563,800
Blocked account	94,894,000	23,002,202
Coffee plantation	53,123,982	95,773,403
Documentary credit	3,000,000	3,000,000
Bank guarantee	520,883	-
Total collateral value	**921,718,024,379**	**810,405,793,052**
Total outstanding loan and bond (Net ECL)	947,253,762,529	872,964,838,506
Collateral coverage ratio	**97%**	**93%**

As can be seen from the above table, the value of collateral held by CBE as a security for loan granted are measured when the loans are initially granted. The overall collateral coverage ratio to the outstanding principal loan and bond is estimated about **97%,(2022: 93%)**.

In conducting the credit analysis of loan case, collateral coverage ratio is considered apart from loan granted on clean basis. The borrower can pledge one collateral for many loans or different collaterals for single loan or different types of collateral for different loans.

Concentration of Credit Risk

The table intends to briefly indicate the loan portfolio Vs security covered by different class of collaterals at the reporting date. While factoring the collateral for loan provision coverage it is adjusted to the computation of EAD.

(5) Financial Risk Review - (Continued)

(a) Credit Risk - (Continued)

Concentration of Credit Risk - (Continued)

Some of the collateral classes are very liquid and equivalent to cash such as blocked account balance and government bond. The collateral data indicates the balance of collateral securities held by CBE for loans and advances disbursed up to 30 June, 2023.

The Bank analyzes credit risk concentration by sector and geographic location. The analysis of credit risk concentration as of the reporting date of the financial statement is described as follows:

i. Concentration by Sector

Sector	30 June 2023	30 June 2022
Agriculture	29,694,884,239	45,355,438,366
Manufacturing	205,924,733,608	191,384,029,915
Domestic trade and services	47,590,707,935	18,144,383,818
International trade	12,295,358,584	13,008,313,641
Building and construction	16,432,762,887	26,221,507,793
Consumer loan	53,104,227,219	32,006,414,780
Financial institutions	1,162,157,785	321,450,738
Total outstanding	**366,204,832,256**	**326,441,539,051**
Allowance for expected credit loss	**(35,768,614,776)**	**(32,788,647,408)**
Net loan	**330,436,217,480**	**293,652,891,643**

The loan portfolio is diversified in all economic sectors. However, the lion's share of the outstanding loan is concentrated in the prime economic sectors such as Manufacturing, Consumer Loan, Domestic Trade and Services, Agriculture, Building and Construction and International trade.

Murabaha finance Birr 20,938,585,345 classified with respective sectors for the year end 30 June 2023.

ii. Concentration by Product Line

The loan portfolio is also diversified product wise. The main loan product lines of the Group consists Term Loan, Overdraft, Advances and Merchandise. The largest portfolio of credit product is constituted by term loans that consists different sub-products according to the purpose of the loan granted for.

Product Type	Outstanding Loan Balances	
	30 June 2023	30 June 2022
Term loan	331,656,881,473	265,972,962,397
Overdraft	13,609,365,439	8,044,457,661
CBE NOOR	20,938,585,345	9,322,882,252
Total Outstanding	366,204,832,257	326,441,539,051
Allowance for expected credit loss	**(35,768,614,776)**	**(32,788,647,408)**
Net loan	**330,436,217,481**	**293,652,891,643**

iii. Loan Concentration by Jurisdiction

Jurisdiction	30 June 2023	30 June 2022
Ethiopia	330,424,281,361	293,634,583,713
South Sudan	11,936,120	18,307,930

(5) FINANCIAL RISK REVIEW - (Continued)

(a) Credit Risk - (Continued)

From the group, Commercial Bank of Ethiopia & Commercial Bank of Ethiopia-South Sudan Limited are the only entities engaged in lending activity and the remaining associates and subsidiaries have no any loan portfolio in their book of records.

iv. Loan Commitment by Product Line

	30 June 2023	30 June 2022
Concentration by commitment type		
Loan and bond commitment	38,449,036,150	32,256,425,592
Letter of credit	210,932,254,909	222,683,990,950
Letter of guarantee	6,309,493,394	15,769,954,194
Total	**255,690,784,453**	**270,710,370,735**
Provision for loan loss	(150,871,794)	(160,681,635)
Total commitment, net	**255,539,912,659**	**270,549,689,100**

Financial guarantees are contracts that require the CBE to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Term loan and bond commitments are promises to disburse the remaining portion of an approved loan/bond under pre-specified terms and conditions.

Letter of credit commitment is also pertaining to advances made to import and export business of the borrowers where the Bank is committed to meet their obligation when they fail.

(b) Liquidity Risk

Liquidity risk is the risk that the Group either does not have sufficient resources available to meet all its obligations and commitments as and when they fall due, or can only access these financial resources at excessive cost. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation and security.

The Group manages liquidity risk both a short-term and medium-term basis. In short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the statement of financial position remains structurally sound.

The Asset and Liability Management Committee (ALCO) and the Risk Management Committee regularly monitor the liquidity position by analyzing the maturity structure of assets and liabilities, the stability of deposits by customer type and the compliance to minimum standards set forth by the regulations and corporate policies.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Net liquid assets are cash and cash equivalents and negotiable financial instruments that mature in less than 186 days from the date of issue.

(5) FINANCIAL RISK REVIEW - (Continued)

(b) Liquidity Risk - (Continued)

The Group also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advance to deposit ratio demonstrates that customer deposits are in excess of customer loans due to the emphasis placed on generating a high level of stable funding from customers.

	30 June 2023	30 June 2022
Loans and advances to customers	330,436,217,481	293,652,891,643
Deposits from customers	1,054,491,375,058	890,942,145,511
Loans and advances to deposits ratio	31.34%	32.96%

(5) FINANCIAL RISK REVIEW- (Continued)

(b) Liquidity Risk - (Continued)

The table below summarizes the Group's liquidity risk as at 30 June 2023 and 30 June 2022, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

Amounts in Million Birr

Total Financial Assets and Financial Liabilities

30 June 2023	Up to 1 Month	1-3 Months	3 Months up to 1 Year	1-3 Years	Over 3 Years	Non-maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	125,576	7,008	216	2	2,041	49,821	**184,664**
Loans and advances to banks	7	46	283	442	381	-	**1,158**
Loans and advances to customers	21,568	11,536	55,267	39,952	200,956	-	**329,279**
Receivables						3,435	**3,435**
Investment in associates						411	**411**
Equity securities and debt securities	2,869	66,145	125,686	168,002	378,585	969	**742,256**
Other assets						44,685	**44,685**
A. Total assets	**150,020**	**84,734**	**181,451**	**208,397**	**581,963**	**99,321**	**1,305,886**
II. Liabilities							
On balance sheet							
Deposits due to other banks	304	-	-	-	1,405		**1,709**
Customers' deposits	49,584	1,912	2,447	2	998,837		**1,052,782**
Borrowing from NBE					104,575		**104,575**
Current tax liability		6,390					**6,390**
State dividend payable		12,364					**12,364**
Other liabilities	573	12,137			53,077		**65,787**
B. Total liabilities	**50,460**	**32,803**	**2,447**	**2**	**1,157,894**	**-**	**1,243,607**
C. Net liquidity gap (A-B) as at 30 June 2023	**99,559**	**51,931**	**179,004**	**208,395**	**(575,932)**	**99,321**	**62,279**
Cumulative gap as at 30 June 2023	**99,559**	**151,490**	**330,494**	**538,890**	**(37,042)**	**62,279**	**124,559**

(5) FINANCIAL RISK REVIEW - (Continued)

(b) Liquidity Risk - (Continued)

Amounts in Million Birr

Total Financial Assets and Financial Liabilities

30 June 2022	Up to 1 Month	1-3 Months	3 Months up to 1 Year	1-3 Years	Over 3 Years	Non-maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	61,227	753	390	5	63,769		**126,144**
Loans and advances to banks	2	16	101	157	45		**321**
Loans and advances to customers	16,381	22,098	46,006	54,155	128,258	26,433	**293,331**
Receivables						3,250	**3,250**
Investment in associates						364	**364**
Equity securities and debt securities	9,609	44,778	135,573	255,569	250,980	524	**697,033**
A. Total assets	**87,219**	**67,645**	**182,070**	**309,886**	**443,052**	**30,571**	**1,120,443**
II. Liabilities							
On balance sheet							
Deposits due to other banks	175				1,105		**1,280**
Customers' deposits	59,070	7,531	3,898	47	819,116		**889,662**
Borrowing from NBE				129,992			**129,992**
Current tax liability		7,306					**7,306**
Other liabilities	1,325	35,522			8,156		**45,003**
B. Total liabilities	**60,570**	**50,359**	**3,898**	**130,039**	**828,377**		**1,073,243**
C. Net liquidity gap (A-B) as at 30 June 2022	**26,649**	**17,286**	**178,172**	**179,847**	**(385,325)**	**30,571**	**47,200**
Cumulative gap as at 30 June 2022	**26,649**	**43,935**	**222,107**	**401,954**	**16,629**	**47,200**	**94,400**

(5) FINANCIAL RISK REVIEW- (Continued)

(b)Liquidity Risk - (Continued)

It is assumed that the fair value of the liquid assets is equivalent to the carrying amount since no discounting is involved to realize these assets into cash.

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long-term nature.

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

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits and other liabilities. This enhances flexibility, limits dependence on any 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 meeting business goals and targets set in terms of the overall Group strategy.

(c) Market Risk

The Group recognizes market risk as the risk of loss arising from changes in market prices and rates. The Group's exposure to market risk arises principally from customer-driven transactions and recognizes that the value of on and off-balance sheet positions of the Group are adversely affected by the movement in the market prices or rates such as interest rate, exchange rate, equity prices and commodity price that may result in loss for the Group. The objective of the Group's market risk policies and processes is to obtain the best balance between risk and return whilst meeting customers' requirements.

The Group's exposure to potential market risk arises mainly due to the open interest rate and exchange rate positions. All these elements are exposed to general and specific market movements and may result in the reduction of the value of a financial asset. The Asset and Liability Management Committee (ALCO) authorize the established limits and monitor results.

(a) Interest Rate Risk

The interest rate risk is the exposure of the financial position of the Group to any losses arising from adverse movements in interest rates.

The Group monitors the sensitivity of changes in interest rates, and determines the balance structure, different item terms and investment strategies.

The table below summarizes the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

(5) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk – (Continued)

(a) Interest Rate Risk - (Continued)

**Exposure to Interest Rate Risk
(Amounts in Millions Birr)**

30 June 2023	Up to 1 Month	1-3 Months	3-month up to 1 Year	1-3 Years	Over 3 Years	Non -interest Sensitive Items	Total
I. Assets							
A. Interest rate sensitive assets							
Cash & balances with NBE						184,664	**184,664**
Loans and advances to banks	7	46	283	442	381		**1,158**
Loans and advances to customers	21,568	11,536	55,267	39,952	200,956	-	**329,279**
Debt securities	2,869	66,145	125,686	168,002	377,615	970	**741,286**
Total rate sensitive assets	**24,444**	**77,726**	**181,236**	**208,395**	**578,952**	**185,634**	**1,256,387**
II. Liabilities							
B. Rate sensitive liabilities							
Deposits due to other banks	304	-	-	-	1,405	-	**1,709**
Customers' deposits	49,584	1,912	2,447	2	537,599	461,237	**1,052,782**
Borrowings from NBE							
Total rate sensitive liabilities	**49,888**	**1,912**	**2,447**	**2**	**539,005**	**461,237**	**1,054,491**
C. Rate sensitive gap	**(25,444)**	**75,814**	**178,788**	**208,393**	**39,947**	**(275,604)**	**201,895**
Cumulative rate sensitive gap	**(25,444)**	**50,370**	**229,158**	**437,551**	**477,499**	**201,895**	**403,791**
Adjusted interest rate change	**0.14**	**0.25**	**1.5**	**1**	**1**		
Relative gap ratio (RSG to total asset)	(17%)	89%	99%	100%	7%		**15%**
Total asset	**150,020**	**84,734**	**181,451**	**208,397**	**581,963**	**99,321**	**1,305,886**

(5) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk -(Continued)

(a) Interest Rate Risk - (Continued)

Exposure to Interest Rate Risk

(Amounts in Millions Birr)

30 June 2022	Up to 1 Month	1-3 Months	3-month up to 1 Year	1-3 Years	Over 3 Years	Non -interest Sensitive Items	Total
I. Assets							
A. Interest rate sensitive assets							
Cash & balances with NBE							
Loans and advances to banks	2	16	100	157	45		**321**
Loans and advances to customers	16,383	22,098	46,006	54,155	128,258	26,433	**293,331**
Debt securities	9,609	44,778	135,573	255,569	250,456	524	**696,509**
Total rate sensitive assets	**25,994**	**66,892**	**181,679**	**309,881**	**378,759**	**26,957**	**991,161**
II. Liabilities							
B. Rate sensitive liabilities							
Deposits due to other banks	175			1,105			**1,280**
Customers' deposits	59,070	7,531	3,898	47	819,116		**889,662**
Borrwings from NBE							
Total rate sensitive liabilities	**59,245**	**7,531**	**3,898**	**1,152**	**819,116**		**890,942**
C. Rate sensitive gap	**(33,251)**	**59,361**	**177,781**	**308,729**	**(440,357)**	**26,957**	**99,219**
Cumulative rate sensitive gap	**(33,251)**	**26,110**	**203,891**	**512,620**	**72,263**	**99,219**	**198,438**
Adjusted interest rate change	**0.14**	**0.25**	**1.5**	**1**	**1**		
Relative gap ratio (RSG to total asset)	-38%	88%	98%	100%	-98%		9%
Total asset	**87,219**	**67,645**	**182,070**	**309,886**	**443,052**	**30,571**	**1,120,443**

(5) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk - (Continued)

(b) Exchange Rate Risk

Exchange rate risk is the risk a financial instrument's value fluctuates as a result of changes in the exchange rates of foreign currencies and other financial variables. Foreign exchange rate risks arise from financial instruments denominated in currencies other than the Bank's functional currency.

The Group's foreign currency denominated assets and liability accounts may result in translational gain/loss depending on the net open position and direction of the exchange rate movement. To control the risk, the net position in each foreign currency is managed on a daily basis.

The various foreign currencies to which the Group is exposed to are summarized below:

Currency Type	30-Jun-23	30-Jun-22
	Amount in Thousands of Foreign Currency	Amount in Thousands of Foreign Currency
1. On B/S FCY assets		
AED	1,450	1,592
CAD	481	293
CHF	1,204	769
DJF	89,967	46,223
DKK	2,661	902
EUR	17,383	5,765
GBP	4,531	803
INR	176,371	60,687
JPY	33,922	5,851
KES	19,546	11,510
KWD	18	34
AUD	8	100
SAR	1,564	3,044
SEK	7,556	16,778
USD	636,481	636,945
NOK	1,917	1,481
XAF	3,708	-
2. On B/S FCY liabilities		
DJF	36	398
EUR	96,698	65,514
GBP	6,034	2,487
USD	975,976	918,737
JPY	760	760

(5) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk - (Continued)

Sensitivity Analysis

As can be witnessed in the exchange rate movement during the year, the tendency of further depreciation of Birr is probable. Hence, we have considered two senarios of Birr devaluation by 15% and 20%. In order to see the impact on the financial performance of CBE, the sensitivity is applied to the open position in USD, GBP and other currencies.

Stressed by 15% Birr Devaluation

S.No.	Descriptions	Multiplying Factor	Actual Position (in Millions of ETB)	Stressed by 15% Birr Devaluation (in Millions of ETB)	Change (in Millions of ETB)
1	**Overall open position**		**(247,659)**	**(284,512)**	**(36,853)**
1.1	Net short open position – USD		(234,256)	(269,395)	(35,138)
1.2	Net short open position – EUR		(11,428)	(13,143)	(1,714)
1.3	Net short openposition - other currencies		(1,974)	(1,974)	-
2	**Total, capital**		**62,279**	**62,279**	**-**
2.1	Capital charge (8%)	0.08*1	19,813	22,761	2,948
2.2	Forex risk capital charge to total capital ratio	2.1/2	318	365	(47)
3	**Overall open position to capital ratio**		**(398)**	**(457)**	**(59)**
4	**Profit before tax projection**				**21,880**
5	**Total, gain/loss due to depreciation of Birr against USD**				**(12,650)**
5.1	Gain/Loss from FCY denominated on balance sheet				(7,028)
5.2	Gain/Lossfrom FCY denominated off balance sheet (20%)				(5,622)
6	**Total, gain/loss due to depreciation of Birr against EUR**				**(617)**
6.1	Gain/Loss from FCY denominated on balance sheet				(343)
6.2	Gain/Lossfrom FCY denominated off balance sheet (20%)				(274)
7	**Total, gain/loss due to depreciation of Birr against USD and EUR (5+6)**				(13,267)
8	**Post shock profit/loss**				**8,613**
9	**Impact on capital**				**-**
10	**Post-shock capital**				**-**

(5) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk - (Continued)

Sensitivity Analysis - (Continued)

Stressed by 20% Birr Devaluation

S.No.	Descriptions	Multiplying Factor	Actual Position (in Millions of ETB)	Stressed by 20% Birr Devaluation (in Millions of ETB)	Change (in Millions of ETB)
1	**Overall open position**		**(247,659)**	**(296,796)**	**(49,137)**
1.1	Net short open position – USD		(234,256)	(281,107)	(46,851)
1.2	Net short open position – EUR		(11,428)	(13,714)	(2,286)
1.3	Net short open position - other currencies		(1,974)	(1,974)	-
2	**Total, capital**		**62,279**	**62,279**	**-**
2.1	Capital charge (8%)	0.08*1	19,813	23,744	3,931
2.2	Forex risk capital charge to total capital ratio	2.1/2	318	381	(63)
3	**Overall open position to capital ratio**		**(398)**	**(477)**	**(79)**
4	**Profit before tax projection**				**21,880**
5	**Total, gain/loss due to depreciation of Birr against USD**				**(16,866)**
5.1	Gain/Loss from FCY denominated on balance sheet				(9,370)
5.2	Gain/Lossfrom FCY denominated off balance sheet (20%)				(7,496)
6	**Total, gain/loss due to depreciation of Birr against EUR**				**(823)**
6.1	Gain/Loss from FCY denominated on balance sheet				(457)
6.2	Gain/Lossfrom FCY denominated off balance sheet (20%)				(366)
7	**Total, gain/loss due to depreciation of Birr against USD and EUR (5+6)**				(17,689)
8	**Post shock profit/loss**				**4,191**
9	**Impact on capital**				**-**
10	**Post-shock capital**				**-**

(5) FINANCIAL RISK REVIEW - (CONTINUED)

(d) Operational Risk Management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Operational risks arise from all of the Group's operations and are faced by all business units. As such, the Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, control and report such risks.

The scope of operational risk assessment of any process shall be determined based on various factors among them:

- The level of perceived risks;
- Previous operational risk assessment risks;
- Business criticality of the activities, process or product under consideration;
- The presence of overarching regulatory requirement; and
- Management's need for further examination of ongoing operations (such as lines of business, product, service and processes individually or in combinations).

Every risk assessment unit shall perform a risk assessment on its respective processes/units, at least on an annual basis. The Risk and Compliance Management process may request for more frequent risk assessment, if the need arises, primarily based on the perceived level of risk of the respective risk assessment unit/process.

(e) Capital Management

The Group manages its capital based on Basel guidelines as well as local regulation requirements. The Commercial Code of Ethiopia through article 80 (capital and reserves) defines capital as the original value of the elements put at disposal of the undertaking by the owner or partners by way of contribution in kind or in cash. It further stipulates that all profits preserved for the undertaking and not forming part of capital shall constitute a reserve.

The statutory regulator, the National Bank of Ethiopia, has issued directive number SBB/4/95 that dictates every bank transfer on an annual basis, 25% of its annual net profit to its legal reserve account until such account equals its capital. When the legal reserve account equals the Bank's capital, the amount to be transferred to the legal reserve account shall be 10% of the annual net profit.

The Bank's capital is therefore managed in accordance with NBE directives and proclamation on banking business and those of subsidiaries capital is managed in accordance with the commercial code and other related laws.

(5) FINANCIAL RISK REVIEW - (CONTINUED)

(e) Capital Management (Continued)

In addition to regulatory requirements, CBE conducts objective analysis on the adequacy of its capitalization on a regular basis. Based on the result of rigorous analysis made on capital management and adequacy, CBE injects additional capital after proposing the required amountof additional capital to the Ministry of Finance and upon approval by the house of peoples' representatives of the Federal Democratic Republic of Ethiopia.

The National Bank of Ethiopia requires a bank to maintain at all times:

- Primary or Tier 1 capital: state capital/paid-up capital, declared reserves and Accumulated Profit or loss.
- Secondary or Tier 2 capital: Includes qualified equity instruments. However, CBE does not have any tier-2 capital account in its statement of financial position.

The Bank and its individually regulated subsidiaries have met with all of the external capital requirements to which they are subject. As of 30 June 2023, and 30 June 2022 respectively, the Bank's regulatory capital position was as follows:

	30 June 2023	30 June 2022
Capital - level 1		
State capital	40,000,000,000.00	40,000,000,000.00
Legal reserves	23,792,522,436	19,411,191,215
Capital reserve		249,632,382
CBE NOOR reserve	24,105,344	19,412,058
Accumulated profit or loss.	12,364,122,991	11,899,022,042
Statutory reserve	90,827,390	1,756,847,304
Total	**76,271,578,161**	**73,336,105,000**
Capital - level 2		
Fair value reserve	289,390,679	181,005,199
Foreign currency translation reserve	(29,102,090)	(233,187,639)
Remeasurement of defined benefit BS	(1,888,482,683)	(1,767,940,532)
Total	**(1,628,194,093)**	**(1,820,122,972)**
Total regulatory capital	**74,643,384,068**	**71,515,982,029**
Total assets and weighted contingencies	**288,527,900,671**	**257,089,417,439**
Total regulatory capital / risk weighted assets	**25.87%**	**27.82%**

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Accounting Classifications

Fair value of a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximizes the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued using discounted cash flow method or quoted market prices for securities with similar yield characteristics.

During the current year, there was sufficient information available to measure the fair value of financial instruments based on observable market inputs. In the previous year, the available-for-sale equity instruments were measured at cost because the fair value was not considered to be reliably measurable.

Loans and advances to customers and Loans to micro-finance institutions are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value hence their fair values approximate their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value if fixed interest-bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with similar maturities and interest rates, hence their fair value approximates their carrying amounts.

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(a) Accounting Classifications - (Continued)

The table below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

						Fair Value		
	Amortized Cost	FVOCI	FVTPL	Total Carrying Amounts	Level 1	Level 2	Level 3	Fair Value
30 June 2023	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial instruments								
Financial assets								
Cash and balances with NBE	126,956,676,834			126,956,676,834				
Treasure bill	97,011,705,400			97,011,705,400				
Placement with other banks	33,877,985,477			33,877,985,477				
Loans and advances to customers	329,278,708,327			329,278,708,327				
Loans to micro-finance institutions	1,157,509,154			1,157,509,154				
Debt securities	650,607,066,580			650,607,066,580				
Equity securities		969,165,622		969,165,622		969,165,622		969,165,622
Receivables	3,435,075,376			3,435,075,376				
Investment in subsidiaries	3,634,487,035			3,634,487,035				
Investment in associates		410,773,292		410,773,292		410,773,292		410,773,292
Total financial assets	**1,245,959,214,182**	**1,379,938,914**		**1,247,339,153,096**		**1,379,938,914**		**1,379,938,914**
Financial liabilities								
Deposits due to other banks	1,708,903,425			1,708,903,425				
Customers' deposits	1,052,782,471,633			1,052,782,471,633				
Current tax liability	6,389,765,083			6,389,765,083				
Other liabilities	104,574,708,536			104,574,708,536				
Total financial liabilities	**1,165,455,848,678**			**1,165,455,848,678**				

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(a) Accounting Classifications - (Continued)

						Fair Value		
	Amortized Cost	FVOCI	FVTPL	Total Carrying Amounts	Level 1	Level 2	Level 3	Fair Value
30 June 2022	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial instruments								
Financial assets								
Cash and balances with NBE	59,698,974,406			59,698,974,406				
Treasure bill	115,697,699,247			115,697,699,247				
Placement with other banks	33,053,298,956			33,053,298,956				
Loans and advances to customers	293,331,457,302			293,331,457,302				
Loans to micro-finance institutions	321,434,341			321,434,341				
Debt securities	697,032,955,844			697,032,955,844				
Equity securities		523,633,929		523,633,929		523,633,929		523,633,929
Receivables	3,250,829,651			3,250,829,651				
Investment in subsidiaries	3,294,937,506			3,294,937,506				
Investment in associates		363,720,878		363,720,878		363,720,878		363,720,878
Total financial assets	**1,205,681,587,253**	**887,354,807**		**1,206,568,942,060**		**887,354,807**		**887,354,807**
Financial liabilities								
Deposits due to other banks	1,279,768,316			1,279,768,316				
Customers' deposits	889,662,377,195			889,662,377,195				
Current tax liability	7,306,693,187			7,306,693,187				
Other liabilities	174,994,524,604			174,994,524,604				
Total financial liabilities	**1,073,243,363,302**			**1,073,243,363,302**				

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(b) Valuation Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of available-for-sale financial assets by valuation technique:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation using significant non-market observable inputs
Types of financial assets:	Actively traded government and other agency securities Listed derivative instruments. Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters
Types of financial liabilities:	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

(7) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest income	**30 June 2023**	**30 June 2022**
Loans and advances to customers	33,010,104,667	31,504,567,823
Debt securities	54,813,756,511	50,676,031,364
Total interest income	**87,823,861,178**	**82,180,599,187**

The Group assessed whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. For credit impaired financial assets, the bank has applied effective interest rate to amortised cost of the financial asset in subsequent reporting periods.

Interest expense	**30 June 2023**	**30 June 2022**
Interest expense	45,674,380,732	38,713,921,403
Total interest expense	**45,674,380,732**	**38,713,921,403**

(8) NON-INTEREST INCOME AND EXPENSES

Non-interest income	**30 June 2023**	**30 June 2022**
Commissions	17,341,318,368	21,351,970,042
Bank services and transaction fees	6,876,973,369	8,771,045,367
Discount earned on securities	432,598,541	476,076,747
Other income	3,085,865,114	1,478,449,237
Total non-interest income	**27,736,755,393**	**32,077,541,394**

(8) NON-INTEREST INCOME AND EXPENSES - (Continued)

The Group recognises revenue when satisfy its performance obligation.The Group has determined that its revenue from contracts with customer does not contain a significant financing component but deal with a significant number of contracts with customers. It is disclosed aggregating with non-interest income.

Non-interest expense	**30 June 2023**	**30 June 2022**
Salaries and employee benefits	30,128,908,095	21,263,769,941
Outsourcing service expense	311,560,735	307,173,475
License fees	734,755,102	518,005,889
Depreciation and amortization	1,763,185,253	1,825,556,601
Deprecation right of use asset	1,620,154,353	1,454,262,015
Advertising and publicity	326,798,945	402,552,647
Repairs and maintenance	762,292,193	509,771,752
Electronic data process	657,893,197	521,871,940
Stationery and office supplies	552,515,109	319,199,614
Donation and contribution expense	1,577,031,405	411,819,950
Discount loss	432,598,541	476,077,001
Other expenses	4,269,447,611	3,717,118,697
Total non- interest expenses	**43,137,140,535**	**31,727,179,518**

(9) CASH AND CASH EQUIVALENTS

	30 June 2023	**30 June 2022**
Cash on hand	16,389,972,409	10,644,872,258
Cash reserve with National Bank of Ethiopia	54,521,651,619	48,021,651,619
Cash reserve with Central Bank of South Sudan	381,768,899	386,691,478
Cash reserve with Central Bank of Djibouti	725,304,985	958,367,597
Treasury bills-cash class	6,913,600,000	23,765,348,516
Placements with other banks	33,882,946,975	33,053,298,956
Payment and settlement accounts		
- with National Bank of Ethiopia	73,000,355,995	10,332,263,712
	185,815,600,882	**127,162,494,137**
Allowance for impairement losses	**(1,151,546,977)**	**(1,018,066,443)**
	184,664,053,906	**126,144,427,694**

The cash reserves is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2023 and 30 June 2022, the cash reserve requirement was 5%, for the two dates of the eligible deposits. Out of the total placement with other Banks ETB 9,832,603,839 as at 30 June 2023 and ETB 10,722,750,953 as at 30 June 2022 represent the debt service reserve account in relation to the master loan agreement made at EXIM Bank of China on behalf of State-Owned Enterprises. These funds are not available to finance the Group's day-to-day operations.

(10) DEBT AND EQUITY SECURITIES

		30 June 2023	30 June 2022
Debt and equity securities	ETB	742,255,592,299	697,032,955,844

i. Debt Securities

As part of its investments securities, the Group maintained a portfolio of investments mainly in coupon bonds, corporate bonds, equity instruments and treasury bills. This account is comprised as follows:

		30 June 2023	30 June 2022
Debt securities	ETB	752,448,001,102	702,743,189,857
Allowance for impairmentlosses		(11,161,574,425)	(6,233,867,941)
		741,286,426,678	**696,509,321,915**

		30 June 2022	30 June 2022
Coupon bonds	ETB	44,621,342,385	57,317,564,093
Corporate bonds		583,357,777,088	528,228,250,711
Treasury & DBE bonds		11,519,557,572	985,097,260
Government securities		22,269,963,959	24,279,927,062
Treasury bills-investment class		90,679,360,098	91,932,350,731
		752,448,001,102	**702,743,189,857**

The interest receivable related to these investment securities is broken down as follows:

Interest receivable	30 June 2023	30 June 2022
Coupon bonds	715,405,134	3,201,314,452
Corporate bonds	69,622,463,403	79,762,060,750
Government securities	-	-
Treasury & DBE bonds	407,625,572	10,097,260
Total	**70,745,494,108**	**82,973,472,462**

ii. Equity Securities

	30 June 2023	30 June 2022
Ethswitch Share Company	321,497,331	164,170,000
African Export Import Bank	637,100,000	350,210,000
S.W.I.F.T. SCRL	10,568,291	9,253,929
	969,165,622	**523,633,929**

(10) DEBT AND EQUITY SECURITIES - (Continued)

(ii) Equity Securities - (Continued)

(a) The change in the Carrying Amount of Equity Securities

	30 June 2023	30 June 2022
Ethswitch Share Company		
At 1 July at cost	164,170,000	137,703,276
Additions	11,735,751	-
Changes in fair value	145,591,580	26,466,724
	321,497,331	**164,170,000**
	30 June 2023	**30 June 2022**
African Export Import Bank		
At 1 July at cost	350,210,000	248,202,194
Additions	278,959,542	7,220,805
Changes in fair value	7,930,458	94,787,002
	637,100,000	**350,210,000**
	30 June 2023	**30 June 2022**
S.W.I.F.T. SCRL		
At 1 July at cost	9,253,929	7,647,264
Changes in fair value	1,314,361	1,606,665
	10,568,291	**9,253,929**

(b) Changes in Fair Value Measurement

Current year unrealized loss/gain arising from measurement at fair value was ETB 154,836,399 and related tax 30% ETB 46,450,920.At June 30, 2023 the additional fair value reserve was ETB 108,385,479.

The Group's investment portfolio and performance is measured on a fair value basis. The Group evaluates the information about its investments on a fair value basis together with other related financial information. During the year, there is no permanent reduction in the value and evidence which evidences impairment of an investment in the Group'sinvestment.

(c) Identifying a Comparable Companies

The comparative companies that the Group has used in valuing the securities are comparable to the company which is being valued. Major factors to consider so as identifying a comparable universe of the target company include:

- Similarity of the Assets (i.e., Industry Classification);
- Size of the companies;
- Geography (if there are similar assets in similar economy, given dependable data is available);
- Growth rate;
- Capital structure; and
- Profitability.

(d) The Method of Valuation Used

For securities that do not have a quoted share price in an active market i.e Eth-switch, the Group has employed an Income approach of valuation, an enterprise value (EV) to EBITDA multiple based on observed multiples for peer companies.

(11) LOANS AND ADVANCES TO CUSTOMERS

Below is the composition of loans and advances to customers divided by category as well as its provision for impairment as of the reporting dates:

	30 June 2023	30 June 2023	30 June 2023
	Gross Amount	Allowance for Expected Credit Losses	Book Value
Agriculture			
Term loan	29,355,814,306	1,087,391,646	28,268,422,660
Overdraft	63,441,825	2,927,805	60,514,020
	29,419,256,131	**1,090,319,451**	**28,328,936,680**
Manufacturing			
Term loan	194,553,029,878	21,033,242,304	173,519,787,574
Overdraft	7,941,371,340	810,205,065	7,131,166,275
	202,494,401,219	**21,843,447,370**	**180,650,953,849**
Domestic & trade services			
Term loan	34,368,647,162	4,943,338,368	29,425,308,794
Overdraft	3,315,666,555	214,952,352	3,100,714,203
	37,684,313,717	**(5,158,290,720)**	**32,526,022,997**
International trade			
Term loan	9,015,225,299	(3,614,117,625)	5,401,107,674
Overdraft	1,550,219,454	(235,641,335)	1,314,578,119
	10,565,444,753	**(3,849,758,959)**	**6,715,685,794**
Building and construction			
Term loan	11,513,486,547	(3,074,608,872)	8,438,877,675
Overdraft	456,784,343	(111,230,881)	345,553,461
	11,970,270,890	**(3,185,839,753)**	**8,784,431,136**
Consumer loan			
Term loan	42,226,389,018	(241,092,388)	41,985,296,630
	42,226,389,018	**(241,092,388)**	**41,985,296,630**
Loan & advance for employee			
Term loan	9,821,562,576	(1,940,356)	9,819,622,220
	9,821,562,576	**(1,940,356)**	**9,819,622,220**
CBE NOOR finance			
Murabaha finance	20,861,036,169	(393,277,148)	20,467,759,022
	20,861,036,169	**(393,277,148)**	**20,467,759,022**
Total	**365,042,674,472**	**(35,763,966,145)**	**329,278,708,327**

(11) LOANS AND ADVANCES TO CUSTOMERS - (Continued)

	30 June 2022	30 June 2022	30 June 2022
	Gross Amount	Allowance for Expected Credit Losses	Book Value
Agriculture			
Term loan	6,498,117,149	(1,744,183,812)	4,753,933,337
Overdraft	13,081,969	(2,659,658)	10,422,311
	6,511,199,118	**(1,746,843,470)**	**4,764,355,648**
Manufacturing			
Term loan	173,510,675,116	(19,099,112,799)	154,411,562,317
Overdraft	4,113,980,138	(462,075,726)	3,651,904,412
	177,624,655,254	**(19,561,188,525)**	**158,063,466,729**
Domestic & trade services			
Term loan	16,917,261,187	(3,382,850,080)	13,534,411,107
Overdraft	1,206,964,292	(100,516,951)	1,106,447,340
	18,124,225,479	**(3,483,367,031)**	**14,640,858,447**
International trade			
Term loan	39,669,331,263	(3,463,382,887)	36,205,948,376
Overdraft	14,922,365,639	(78,021,928)	14,844,343,712
	54,591,696,902	**(3,541,404,815)**	**51,050,292,088**
Building and construction			
Term loan	23,736,761,948	(3,851,989,647)	19,884,772,301
Overdraft	291,205,794	(143,847,415)	147,358,379
	24,027,967,741	**(3,995,837,062)**	**20,032,130,680**
Mining and quarring			
Term Loan	21,984,400		21,984,400
	21,984,400		**21,984,400**
Consumer loan			
Term loan	29,695,024,938	(127,961,605)	29,567,063,333
	29,695,024,938	**(127,961,605)**	**29,567,063,333**
Loan & advance for employee			
Term loan	6,294,327,549	(1,538,313)	6,292,789,236
	6,294,327,549	1,538,313	6,292,789,236
CBE NOOR finance			
Murabaha finance	9,229,006,932	(330,490,190)	8,898,516,742
	9,229,006,932	**(330,490,190)**	**8,898,516,742**
Total	**326,120,088,313**	**(32,788,631,011)**	**293,331,457,302**

(11) LOANS AND ADVANCES TO CUSTOMERS - (Continued)

Allowance for expected credit losses is as shown below:

	Allowance for expected credit losses
At 30 June 2021	**11,210,048,151**
Impairment recognized during the year	21,578,599,257
At 30 June 2022	**32,788,647,408**
Impairment recognized during the year	2,979,967,368
At 30 June 2023	**35,768,614,776**

(12) LOANS TO MICRO-FINANCE INSTITUTIONS

(a) Classification

Below is the composition of loans to micro-finance institution divided by category as well as its provision for impairment as of the reporting dates:

Conventional Loan and Advances

		30 June 2023	30 June 2022
	ETB		
Terms loans		802,726,687	321,450,738
Overdraft		281,881,922	
Less: Allowance for expected credit losses		(4,338,434)	(16,397)
		1,080,270,174	**321,434,341**

CBE Noor Financing

		30 June 2023	30 June 2022
	ETB		
Terms loans		77,549,176	-
Less: Allowance for expected credit losses		(310,197)	-
		77,238,979	**-**

(b) Impairment Losses on Loans and Advances

		30 June 2023	30 June 2022
At 1 July 2022	ETB	16,397	10,205
Amounts recognized(reduced) during the year		4,632,234	6,192
As at 30 June 2023		**4,648,631**	**16,397**

(13) RECEIVABLES

		30 June 2023	30 June 2022
Government receivables	ETB	1,230,978,839	1,230,978,839
Foreign receivables		243,451,530	350,297,437
Other receivables		3,744,150,037	2,080,595,728
Staff loans – prepayments		2,251,291,596	1,996,809,246
		7,469,872,003	**5,658,681,250**
Less: staff loan contra account		(2,251,291,596)	(1,996,809,246)
Less: allowance for doubtful debts		(1,783,505,031)	(411,042,353)
		3,435,075,376	**3,250,829,651**

Allowance for Doubtful Debts

	2023/22
Balance as at 30 June 2021	**(1,841,080,944)**
Reduction (Addition) during the year	1,430,038,591
Balance as at 30 June 2022	**(411,042,353)**
Reduction (Addition) during the year	(1,372,462,678)
Balance as at 30 June 2023	**(1,783,505,031)**

(14) INVESTMENT IN ASSOCIATES

Investments in associates as of 30 June, 2023 and 2022 are as follows:

Ethiopia Re-insurance Company

	30 June 2023	30 June 2022
Opening balance	363,720,878	277,125,422
Group's share of total comprehensive income	47,052,414	43,536,142
Additional investment during the year		43,059,314
Group's investment in associate as at 30 June 2023	**410,773,292**	**363,720,878**

	30 June 2023	30 June 2022
Percentage ownership interest	20%	20%
Revenue (100%)	1,443,132,830	960,571,705
Total comprehensive income (100%)	235,262,069	217,680,710
Share of total comprehensive income (20%)	**47,052,414**	**43,536,142**

(15) NON-CURRENT ASSETS HELD FOR SALE

			2022/23	
Costs		**Building**	**Movable Property**	**Total**
At 1 July 2022	**ETB**	**785,463,886**	**250,708,767**	**1,036,172,653**
Acquisition		130,105,245	25,784,358	155,889,602
Sale/Disposal		(825,256,553)	(251,753,704)	(1,077,010,256)
Total		**90,312,578**	**24,739,421**	**115,051,999**
Less provisions:				
Impairment loss on acquired assets		(24,099)	(176,285,134)	(176,309,233)
Movement for the year		-	88,271,373	88,271,373
Closing balance		**(24,099)**	**(88,013,761)**	**(88,037,860)**
Non-current assets held for sale As at 30 June 2023		**90,288,478**	**(63,274,340)**	**27,014,138**

			2021/22	
Costs		**Building**	**Movable Property**	**Total**
At 1 July 2021	**ETB**	**781,736,109**	**242,306,536**	**1,024,042,645**
Acquisition		6,900,001	8,402,230	15,302,231
Transfer to property, plant and equipment		(244,213)	-	(244,213)
Sale/Disposal		(2,928,011)	-	(2,928,011)
Total		**785,463,886**	**250,708,767**	**1,036,172,653**
Less provisions:				
Impairment loss on acquired assets		(284,497)	(88,271,373)	(88,555,870)
Movement for the year		260,398	(88,013,761)	(87,753,363)
Closing balance		**(24,099)**	**(176,285,134)**	**(176,309,233)**
Non-current assets held for sale As at 30 June 2022		**785,439,787**	**74,423,633**	**859,863,419**

The Group management is committed to selling some assets kept under this category for more than a year. In 2023, the Group sold 67% of non-current assets held for sale and management is still committed to selling the remaining assets.

(16) INVESTMENT PROPERTY

Investment property comprises office buildings that are leased to third parties under operating leases. The leases of investment properties contain initial non-cancellable lease terms of between one and five years. Some leases provide the lessees options to extend at the end of the term. Subsequent renewals are negotiated with the lessees.

For all investment property, the rental income is fixed under the contracts.

	30 June 2023	30 June 2022
Balance as at 1 July	563,187	186,977
Reclassification		376,209
Depreciation	(18,595)	
Balance as at 30 June 2023	**544,592**	**563,187**

The above items of investment property are depreciated on a straight-line basis at the rate of 5% per annum.

(17) PROPERTY, PLANT AND EQUIPMENT

	Balance at 1 July 2022	Additions	Disposals	Reclassifications	Translation Difference	Balance at 30 June 2023
Cost						
Building	**4,254,612,077**	13,893,743	-	6,689,975,645		**10,958,481,470**
Computer and software	**3,667,753,879**	1,819,738,058	(180,693)	(68,226)	76,814	**5,487,319,827**
Fixtures, fittings and equipment	**5,382,367,708**	2,403,664,934	(41,042,359)	16,916,368	179,438	**7,762,086,090**
Motor vehicles	**2,451,790,828**	905,362,650	(8,150,913)	-	210,625	**3,349,213,190**
Work in progress	**7,318,834,204**	1,163,596,705	-	(6,706,823,787)	-	**1,775,607,123**
	23,075,358,695	**6,306,256,091**	**(49,373,965)**	**-**	**466,877**	**29,332,707,699**
Depreciation						
Building	**(762,388,637)**	(164,710,534)	-	18,595	(649,237)	**(927,729,813)**
Computer and software	**(2,679,300,221)**	(507,873,679)	178,886	67,544	(76,779)	**(3,187,004,250)**
Fixtures, fittings and equipment	**(3,818,325,962)**	(687,235,899)	40,288,665	(67,544)	(805,715)	**(4,466,146,456)**
Motor vehicles	**(1,289,709,423)**	(304,152,595)	6,113,185	-	(205,005)	**(1,587,953,838)**
	(8,549,724,243)	**(1,663,972,707)**	**46,580,735**	**18,595**	**(1,736,736)**	**(10,168,834,357)**
Net carrying amount	**14,525,634,452**	**4,642,283,384**	**(2,793,230)**	**18,595**	**(1,269,859)**	**19,163,873,342**

(17) PROPERTY, PLANT AND EQUIPMENT - (Continued)

	Balance at 1 July 2021	Additions	Disposals	Reclassifications	Translation Difference	Balance at 30 June 2022
Cost						
Building	**3,939,272,881**	21,450	-	345,039,531	(29,721,784)	**4,254,612,077**
Computer and software	**2,966,804,759**	695,416,471	(321,394)	6,529,861	(675,818)	**3,667,753,879**
Fixtures, fittings and equipment	**4,668,579,791**	635,022,792	(261,771,897)	343,535,742	(2,998,720)	5,382,367,708
Motor vehicles	**2,272,685,910**	190,565,882	(10,806,486)	(597,423)	(57,056)	**2,451,790,828**
Work in progress	**6,263,477,952**	1,753,548,525	-	(698,192,273)	-	**7,318,834,204**
	20,110,821,292	**3,274,575,121**	**(272,899,778)**	**(3,684,562)**	**(33,453,377)**	**23,075,358,695**
Depreciation						
Building	**(651,854,022)**	(135,852,659)	-	10,706,230	14,611,814	**(762,388,637)**
Computer and software	**(2,301,196,692)**	(383,948,508)	317,892	(2,672,604)	8,199,690	**(2,679,300,221)**
Fixtures, fittings and equipment	**(3,044,989,700)**	(1,028,880,239)	258,462,908	(7,269,197)	4,350,267	**(3,818,325,962)**
Motor vehicles	**(937,181,025)**	(361,618,100)	6,585,802	22,604,488	(20,100,588)	**(1,289,709,423)**
	(6,935,221,439)	**(1,910,299,506)**	**265,366,602**	**23,368,916**	**7,061,183**	**(8,549,724,243)**
Net carrying amount	**13,175,599,853**	**1,364,275,615**	**(7,533,176)**	**19,684,355**	**(26,392,195)**	**14,525,634,452**

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2022: Nil).

(18) INTANGIBLE ASSETS

30 June 2023		Software
Cost	**ETB**	
Balance at 1 July 2022		**1,053,723,672**
Additions		478,100,029
Balance at 30 June 2023		**1,531,823,700**
Amortization and impairment		
Balance at 1 July 2022		**606,298,746**
Additions		159,722,582
Balance at 30 June 2023		**766,021,329**
Net carrying value		**765,802,372**

30 June 2022		Software
Cost	**ETB**	
Balance at 1 July 2021		**588,615,612**
Additions		465,108,060
Balance at 30 June 2022		**1,053,723,672**
Amortization and impairment		
Balance at 1 July 2021		**452,156,977**
Additions		154,141,769
Balance at 30 June 2022		**606,298,746**
Net carrying value		**447,424,926**

Intangible assets relate to software that includes banking and other related softwares.

The amortization expense recognized within non-interest expense for the year ended 30 June 2023 was ETB 159,722,582 (2022: ETB 154,141,769).

(19) OTHER ASSETS

		30 June 2023	30 June 2022
Purchase in progress	ETB	2,658,189,332	2,206,960,617
Stationary and other supplies		1,111,961,163	610,794,938
IT expansion project		958,741,533	1,502,271,683
Prepaid		5,534,369,432	5,678,968,041
Others		1,926,158,215	756,200,862
		12,189,419,675	**10,755,196,142**

(20) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS

The Group leases a number of assets including land and buildings. Information about leases for which the Group is a lessee is presented below:

a. Right-of-use Assets

2022/23	Land	Building	Total
Cost			
Balance at 01 July 2022	101,923,616	8,622,513,857	8,724,437,473
Adjustment	(1,141,598)	32,528,338	31,386,741
Additions	-	1,870,728,685	1,870,728,685
Balance at 30 June 2023	**100,782,018**	**10,525,770,881**	**10,626,552,899**
Depreciation			
Balance at 01 July 2022	15,041,539	4,379,403,615	4,394,445,154
Adjustment	(86,200)	15,740,528	15,654,329
Additions	2,059,865	1,607,379,387	1,609,439,252
Balance at 30 June 2023	**17,015,205**	**6,002,523,530**	**6,019,538,735**
Net carrying value	**83,766,813**	**4,523,247,351**	**4,607,014,164**

2021/22	Land	Building	Total
Cost			
Balance at 01 July 2021	101,923,616	6,785,762,742	6,887,686,358
Adjustment	-	(63,023,287)	(63,023,287)
Additions	-	1,906,676,062	1,906,676,062
Balance at 30 June 2022	**101,923,616**	**8,629,415,517**	**8,731,339,132**
Depreciation			
Balance at 01 July 2021	12,970,552	2,979,503,726	2,992,474,278
Adjustment	-	(55,419,509)	(55,419,509)
Additions	2,070,987.31	1,455,319,398	1,457,390,385
Balance at 30 June 2022	**15,041,539**	**4,379,403,615**	**4,394,445,154**
Net carrying value	**86,882,076**	**4,250,011,902**	**4,336,893,979**

(20) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS – (Continued)

b. Finance Lease Obligation

2022/23	Land	Building	Total
Cost			
Balance at 1 July 2022	(18,360,154)	508,509,314	490,149,160
Adjustment	(503,708)	5,308,278	4,804,570
Addition	-	183,657,616	183,657,616
Payment	(510,674)	(174,955,157)	(175,465,831)
Balance at 30 June 2023	**(19,374,536)**	**522,520,051**	**503,145,515**
Interest expense			
Balance at 1 July 2022	24,834,052	32,029,161	56,863,213
Adjustment	(399,953)	13,497,308	13,097,356
Additions	506,990	24,372,958	24,879,948
Balance at 30 June 2023	**24,941,090**	**69,899,427**	**94,840,517**
Net carrying value	**5,566,554**	**592,419,478**	**597,986,030**

2021/22	Land	Building	Total
Cost			
Balance at 1 July 2021	(17,424,220)	341,592,054	324,167,834
Adjustment	20,230,414	31,254,369	51,484,783
Addition	-	278,785,002	278,785,002
Payment	(21,166,348)	(143,122,110)	(164,288,459)
Balance at 30 June 2022	**(18,360,154)**	**508,509,314**	**490,149,160**
Interest expense			
Balance at 1 July 2021	24,244,533	46,430,953	70,675,485
Adjustment	-	(13,720,903)	(13,720,903)
Additions	589,519	20,940,003	21,529,523
Balance at 30 June 2022	**24,834,052**	**53,650,053**	**78,484,105**
Net carrying value	**6,473,898**	**562,159,367**	**568,633,263**

The Group recognizes a lease liability at the present value of the lease payments that are not paid at that date. The Group uses an incremental borrowing rate that is based on the weighted average cost of deposits across the years. The rates used to compute the present values of buildings lease liabilities as at 30 June 2023was 4.73% (**2022**:4.88%. The rates used to compute the land lease liabilities as at 30 June 2023 was 9.0% (**2022**: 9.0%).

The Group leases buildings for its office space and branches. The building leases typically run for a period of between 2 and 10 years with majority of the contracts running for a period of 5 and 6 years. Some leases include an option to renew the lease for an additional period at the end of the contract term. The renewal term and lease rentals cannot be reliably estimated before the end of a contract.
The Group leases land for construction of its own office buildings. The land leases typically run for a period of between 40 years and 99 years with majority of the contracts running for a period of 50 and 60 years. These leases include an option to renew the lease.

(21) CUSTOMERS' DEPOSITS

Customers´ deposits as of the reporting dates are as follows:

Payable on demand	**30 June 2023**	**30 June 2022**
Local and central government	128,725,252,012	100,621,747,883
Private sector and retail customers	128,840,680,110	114,386,903,654
Public enterprises and agencies	114,055,743,596	116,484,669,753
	371,621,675,718	**331,493,321,291**
Savings deposits		
Private sector and retail customers	556,237,256,582	460,471,910,820
Local and central government	861,370,262	226,083,204
Public enterprises and agencies	25,390,144,282	15,885,492,219
	582,488,771,126	**476,583,486,243**
Term deposits		
Public enterprises and agencies	5,637,539,390	3,083,356,662
Private sector and retail customers	2,438,255,404	2,781,658,727
Local and central government		6,000,000,000
Accrued interest on deposits	165,342,939	161,749,709
	8,241,137,734	**12,026,765,097**
		-
CBE NOOR	90,430,887,055	69,558,804,564
All sectors	**1,052,782,471,633**	**889,662,377,195**

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2023 was 7% (**2022**: 7%).

The weighted average effective interest rate on Term deposits as at 30 June 2023 was 7.2% (**2022**:7.2%).

Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2023 were 0% and 7% respectively (**2022**: 0% and 7% respectively). CBE NOOR represents deposits that are non-interest bearing.

(22) PROVISIONS

	Bonuses	**Cash prize Award**	**Legal**	**Unutilized O/D, LC and Guarantee**	**Total**
Balances at 30 June 2021	**1,141,551,353**	**122,891,273**	**133,347,878**	**122,103,206**	**1,519,893,711**
Increases (decrease) recorded in income	2,048,712,154	211,987,449	95,139,565	9,498,974	2,365,338,141
Provisions used during the year	(1,141,551,353)	122,891,273)	(1,380,500)	29,079,460	(1,236,743,667)
Balances at 30 June 2022	**2,048,712,154**	**211,987,449**	**227,106,942**	**160,681,640**	**2,648,488,185**
Increases (decrease) recorded in income	1,896,746,412	264,683,735	(67,187,510)	(9,809,846)	2,084,432,791
Provisions used during the year	(1,974,559,994)	211,987,449)	(23,399,861)		(2,209,947,304)
Balances at 30 June 2023	**1,970,898,572**	**264,683,735**	**136,519,571**	**150,871,794**	**2,522,973,672**

(22) PROVISIONS - (Continued)

Bonus represent short-term benefits arising from past services provided by clerical and non clerical employees of the bank and are expected to pay within the next 12 months.

Legal provisions represent various claims that are pending outcome at the courts. These amounts are estimates of the likely legal claims that may not be ruled in the Group's favor. And Unutilized O/D, LC, and Guarantee represent provisions held for the off-balance sheet items.

(23) EMPLOYEE BENEFITS

i. Movements in the Present Value of Defined Benefit Obligations (DBO)

	30 June 2023	30 June 2022
DBO at 01 July	9,585,045,546	6,466,778,602
Current service costs	1,169,341,776	924,534,198
Interest cost	1,441,495,255	865,663,728
Payments for the year	(641,232,332)	(438,216,073)
Expense charged to income	11,554,650,245	7,818,760,455
Actuarial gains (losses) recognized in other comprehensive income	681,958,355	1,766,156,166
DBO at end of the year	**12,236,608,600**	**9,584,916,621**

This defined benefit plan expose the Group to actuarial risks, such as longevity risk, currency risk, interest risk and market risk.

ii. Actuarial Losses Recognized in Other Comprehensive Income

	30 June 2023	30 June 2022
Cumulative amount at 1 July	(1,903,569,409)	(1,427,661,978)
Recognized during the year	(184,982,370)	(679,867,759)
Deferred income taxes	55,494,711	203,960,328
Actuarial losses, net of taxes at 30 June	**(2,033,057,068)**	**(1,903,569,409)**

iii. Actuarial Assumptions

Assumptions which reflect the economic relationships between factors such as inflation levels on which the entity operates. Rates shown below are determined in nominal terms

The principal actuarial assumptions at the reporting date are detailed below:

	30 June 2023	30 June 2022
Discount rate	14.97%	13.40%
Salary increase rate	16.75%	16.00%
Long term inflation rate	12.75%	12.30%
Long term medical inflation rate	13.75%	13.00%
Gold increase rate	18.00%	16.00%

The assumed discount rates are derived from rates available on government bonds for which the timing and amounts of payments match the timing and the amounts of our projected pension payments.

(23) EMPLOYEE BENEFITS - (Continued)

iv. Sensitivity Analysis

Reasonably possible changes at the reporting date, in any of the actuarial assumptions and assuming that all the other variables remain constant, would have affected the defined benefit obligations as of 30 June 2022 by the amounts shown below:

	2023		2022	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(529,423,655)	624,662,413	(1,076,643,355)	1,346,427,614
Salary increase rate (1.00% variance)	801,237,145	(668,045,722)	995,999,131	(830,393,372)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(24) OTHER LIABILITIES

Other liabilities as of the reporting dates are as follows:

		30 June 2023	30 June 2022
National Bank of Ethiopia	ETB	104,574,708,536	129,991,557,352
Margin accounts and deposits for guarantees		24,501,317,198	26,961,045,118
Certified payment order´s and fund transfers		5,472,976,748	3,290,292,326
Payable to other banks		3,982,342,305	4,717,656,889
Blocked amounts		735,275,413	600,615,470
Other taxes		1,002,262,170	744,468,612
Unearned income		3,152,979,826	1,605,870,711
Pension contributions		171,892,358	120,336,751
Miscellaneous		11,410,534,844	6,962,681,374
Total		**155,004,289,398**	**174,994,524,603**

Unearned income relates to Bank Guarantee commissions while National Bank of Ethiopia relates to a certificate of deposit.

The Group entered into term loan agreements with the National Bank of Ethiopia at a minimum saving deposit rate.

Dividends

Future dividends payable: 75% of Group's profit is prorated to dividends to the government and booked as anaccumulated profit/loss in the Group's book.

(25) INCOME TAXES

The Group is subject to income taxes in Ethiopia, the Republic of South Sudan and the Republic of Djibouti.

In Ethiopia the rate of business income tax applicable to a business is 30%. In accordance to the tax proclamation, the tax payer is allowed a number of deductible expenditures in determining the taxable revenue for a tax year.

In the Republic of South Sudan, a business profit tax shall be charged on the taxable profit of a tax payer at the rate of 10% for small businesses, 15% for medium-size businesses and 20% for large businesses. CBE- South Sudan is charged a business profit tax on its taxable profit at a rate of 20%. In the Republic of Djibouti, a business profit tax shall be charged on the taxable profit of a tax payer at the rate of 25%.

a) Reconciliation of Effective Tax Rate

	30 June 2023	30 June 2022
Profit before tax	22,110,064,145	21,820,595,603
Blended statutory tax rate	30%	30%
"Expected" "tax expense	6,633,019,243	6,546,178,681
Non-deductible expenses	4,704,995,357	9,649,805,496
Allowed expenses	(2,494,672,483)	(6,601,670,121)
Tax-exempt income	(2,579,010,627)	(2,418,677,840)
Tax effect of consolidation	125,433,592	131,056,971
Income tax payable	**6,389,765,083**	**7,306,693,187**

For the year ended 30 June 2023 the Group had an effective income tax rate of 28.90%(33.49% in 2022).

b) Income Tax Expense

	30 June 2023	30 June 2022
CBE's income tax	4,501,837,873	5,152,878,985
Subsidiaries income tax expense	171,594,473	174,965,458
Income tax	**4,673,432,346**	**5,327,844,443**

c) Income Tax Recognized Directly in Other Comprehensive Income

	30 June 2023			30 June 2022		
	Income Tax	Before Taxes	Net of Taxes	Income Tax	Before Taxes	Net of Taxes
Remeasurement of defined benefit liability	55,494,711	(184,982,370)	(129,487,659)	203,960,328	(679,867,759)	(475,907,431)
Financial assets – fair valuation	(46,450,920)	154,836,399	108,385,479	(36,858,117)	122,860,391	86,002,274
Total Income tax (OCI)			**(21,102,180)**			**(389,905,158)**

At 30 June 2023 and 2022, the tax effects of temporary differences that give rise to significant portions of the deferred income tax assets are cash and cash equivalents, loans & dvances, receivables, PPE, intangible, provisions and employees' benefit.

(25) INCOME TAXES - (Continued)

d) Recognized Deferred Tax Assets

	30 June 2023	30 June 2022
Balance as of 1 July	**6,199,098,365**	**4,066,481,458**
Recognized in profit & loss	2,460,220,991	3,061,008,037
Recognized in other comprehensive income	(728,318,086)	(928,391,130)
Balance as of 30 June	**7,931,001,271**	**6,199,098,365**

(26) EQUITY

(a) Capital

Commercial Bank of Ethiopia is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2023, the Bank's capital was ETB 40,000,000,000 (**2022:** ETB 40,000,000,000).

(b) Legal Reserve Account

For CBE, the Legal reserve in accordance with the Directive No. SBB/4/95 issued by the National Bank of Ethiopia, every bank shall transfer annually 25% of its annual net profit as a legal reserve until such account equals its capital. For Commercial Nominees PLC, 5% of the net profit until the accumulated legal reserve balance amounts to 10% of the issued share capital accordingto commercial code of Ethiopia Article 454.

(c) Statutory Reserve

This account represents the excess amount in allowance for uncollectable suspense accounts as per the National Bank of Ethiopia's requirement compared to the IFRS requirement.

(d) CBE NOOR Reserve

The CBE NOOR Reserve relates to the Mudarabah contract. The CBE NOOR reserve is a sum of profit equalization reserve (PER) and investment risk reserve (IRR). The Profit equalization reserve (PER) is the amount appropriated by the Group out of the Mudarabah income before allocating the mudarib share in order to maintain a certain level of return on investment for the Investment Account Holder. On the other hand, the Investment risk reserve (IRR) is the amount appropriated by the Group out of the income of Investment Account Holder (IAH), after allocating the mudarib share, in order to cater against future losses for the Investment Account Holder.

(e) Accumulated Profit/Loss

The profits or losses that the bank has earned to date, accumulated profit is 75% of net profit not yet paid to the goverment.

(f) Fair Value Reserve, Remeasurement of Defined Benefit Liabilities and Foreign Currency Translation Reserve

Represent the accumulated amount, net of deferred income taxes, arising from changes in actuarial assumptions used in the calculation of labor obligations, the effect of the change in foreign currency translation reserve and the change in fair value of equity investments.

(27) COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Bank conducts business involving guaranteesand letter of credit. These facilities are offset by corresponding obligations of third parties. At the year end the contingencies were as follows:

Commitments	30 June 2023	30 June 2022
Loans committed but not disbursed at year end	34,727,836,042	21,996,731,823
Bond commitment	3,721,200,108	7,058,069,387
Construction commitment	6,306,129,344	6,522,928,800
	44,755,165,494	**35,577,730,011**

Contingent Liabilities	30 June 2023	30 June 2022
Letter of credit	210,932,254,909	222,683,990,950
Guarantees	6,309,493,394	15,769,954,194
	217,241,748,303	**238,453,945,143**

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 customers.

Guarantees are generally written by a bank to support the performance by a customer to third parties. The Group will only be required to meet these obligations in the event of the customer's default.

(28) RELATED PARTIES

(a) Remuneration of Key Management Personnel

Key management members received the following remuneration during the years ended 30 June 2023 and 2022:

	30 June 2023	30 June 2022
Salaries	28,912,781	17,021,860
Allowance and other short-term benefits	20,549,109	17,596,827
Board fee	3,549,196	1,419,503
Post-employment benefits	2,897,150	1,872,405
	55,908,236	**37,910,594**

Compensation for the Group's key management personnel includes basic salaries, housing allowances, fuel allowances, hardship allowances, representation amounts, and bonuses.
Post-employment benefits are key management member benefits that are payable after the completion of employment.

During the year, there were no other long-term benefits provided to members of the Board of Directors or the Executive Management of the Group.

(b) Transactions with Key Management Personnel

Key management members entered into the following transaction:

	30 June 2023	30 June 2022
Loans granted	**55,505,777**	**31,575,391**

(28) RELATED PARTIES - (Continued)

(b) Transactions with Key Management Personnel - (Continued)

The loans issued to Excutive Management members granted are secured against the property being acquired by the borrower. At the end of each reporting period the Group performs an impairment assessment on the outstanding balances and provides an allowance for impairment losses at the reporting date. No impairment losses have been recorded against loan balances with key management personnel as at 30 June 2023 (2022:Nil).

(c) Related Party Transactions

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. These transactions include loans, deposits and foreign currency transactions.

Ethiopian Re-insurance Share Company is the only associate of Commercial Bank of Ethiopia. The Group has significant influence, with a shareholding of 20 percent of the voting rights and/or ownership interest.

The volumes of the related party transactions, outstanding balances at the end of the year and the related expenses and incomes for the year are as follows:

	30 June 2023	30 June 2022
a. Expense		
Interest expense paid to associates	3,709,860	3,847,689
b. Income		
Income received fromassociates	47,052,414	43,536,142
Balances due to group companies	**43,342,554**	**39,688,453**

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023 (IN ETHIOPIAN BIRR)

	Note	30 June 2023	30 June 2022
Interest income	31	87,809,414,594	82,176,634,602
Interest expense	31	(45,721,592,196)	(38,767,207,980)
Net interest income		**42,087,822,398**	**43,409,426,622**
Impairment losses on financial instruments	34 & 35	(7,995,398,404)	(25,735,663,935)
Net interest income after provisions		**34,092,423,994**	**17,673,762,687**
Gain/loss on foreign currency transactions		3,272,869,289	3,673,887,723
Gain/loss on equity inv in subsidiaries and associates	38	615,125,320	464,631,752
Non-interest income	32	28,226,663,596	31,377,943,532
Non-interest expense	32	(44,254,513,834)	(31,532,370,446)
Profit before tax		**21,952,568,366**	**21,657,855,249**
Income tax	49	(4,501,837,873)	(5,152,878,985)
Profit for the year		**17,450,730,492**	**16,504,976,263**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit liability	47	(172,626,713)	(660,880,966)
Related tax	49	51,788,014	198,264,290
Unrealized (loss)/gain arising from measurement at fair value	49	154,836,399	122,860,391
Related tax - available for sale	49	(46,450,920)	(36,858,117)
		(12,453,220)	**(376,614,403)**
Items that are or may be reclassified subsequently to profit or loss			
Other comprehensive income (Loss), net of tax		(12,453,220)	(376,614,403)
Total comprehensive income		**17,438,277,273**	**16,128,361,861**

The accompanying notes are an integral part of this separate financial statement.

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023 (IN ETHIOPIAN BIRR)

	Notes	30 June 2023	30 June 2022
Assets			
Cash and cash equivalent	33	182,623,541,592	123,503,948,275
Debt & equity securities	34	742,252,592,299	697,028,955,844
Loans and advances to customers, net	35	329,266,772,207	293,313,149,372
Loans to micro-finance institutions, net	36	1,157,509,155	321,434,341
Receivables	37	1,750,432,669	3,019,621,686
Investments in subsidiaries and associates	38	4,045,260,327	3,294,937,507
Investment property	40	544,592	563,187
Property, plant and equipment, net	41	18,778,369,954	14,197,216,383
Intangible assets, net	42	758,724,318	445,421,351
Non-current assets held for sale	39	27,014,139	859,863,419
Other assets	43	10,902,474,434	9,639,920,186
Right of use asset	44	4,579,623,481	4,326,069,928
Deferred tax asset	49	7,931,001,270	6,210,419,292
Total assets		**1,304,073,860,438**	**1,156,161,520,770**
Liabilities			
Deposits due to other banks		2,235,708,435	1,288,187,277
Customers' deposits	45	1,051,729,653,771	889,441,972,100
Current tax liabilities	49	6,217,082,758	7,126,814,110
Provisions	46	2,522,973,672	2,648,488,185
Finance lease obligations	44	573,694,383	564,177,265
Employee benefits	47	12,150,813,602	9,527,921,468
Other liabilities	48	153,341,713,033	173,659,958,030
Total liabilities		**1,228,771,639,654**	**1,084,257,518,434**
Equity			
Capital	50	40,000,000,000	40,000,000,000
Legal reserve	50	23,688,151,649	19,325,469,026
Statutory reserve	50	90,827,390	1,756,847,304
CBE NOOR reserve	50	24,105,344	19,412,058
Remeasurement of defined benefit liability	50	(1,878,302,148)	(1,757,463,448)
Accumulated profit or loss	50	13,088,047,869	12,378,732,197
Fair value reserve	50	289,390,679	181,005,199
Total equity		**75,302,220,784**	**71,904,002,336**
Total liabilities and equity		**1,304,073,860,438**	**1,156,161,520,770**

The accompanying notes are an integral part of this separate financial statement.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023 (IN ETHIOPIAN BIRR)

	Capital	Legal Reserve	Statutory Reserve	CBE NOOR Reserve	Accumulated Profit or Loss	Remea-surement of Defined Benefit Liability	Fair value Reserve	Total Equity
Balance as of 30 June 2021	**40,000,000,000**	**15,199,224,961**	**236,337,498**	**6,474,853**	**9,571,909,473**	**(1,417,707,163)**	**217,863,317**	**63,814,102,939**
Opening adjustment					2,806,822,725			**2,806,822,725**
Total comprehensive income								
Profit for the year					16,504,976,263	(339,756,286		**16,165,219,977**
Other comprehensive income							(36,858,117)	**(36,858,117)**
Transfer to/(from) CBE NOOR reserve				12,937,205			-	**12,937,205**
Transfer to/(from) statutory reserve			(1,520,509,806)				-	**1,520,509,806**
Transfer to/(from) legal reserve		4,126,244,066			(4,126,244,066)		-	
Accumulated profit or loss					(12,378,732,197			**(12,378,732,197)**
Balance as of 30 June 2022	**40,000,000,000**	**19,325,469,027**	**1,756,847,303**	**19,412,058**	**12,378,732,197**	**(1,757,463,449**	**181,005,199**	**71,904,002,336**
Opening adjustment								
Total comprehensive income								
Profit for the year					17,450,730,492	(120,838,699)		**17,329,891,793**
Other comprehensive income							108,385,479	**108,385,479**
Transfer to/(from) CBE NOOR reserve				4,693,286				**4,693,286**
Transfer to/(from) statutory reserve			(1,666,019,914)					**(1,666,019,914)**
Transfer to/(from) legal reserve		4,362,682,623			(4,362,682,623)			
Accumulated profit or loss					(12,378,732,197)			**(12,378,732,197)**
Balance as of 30 June 2023	**40,000,000,000**	**23,688,151,650**	**90,827,389**	**24,105,344**	**13,088,047,869**	**(1,878,302,148)**	**289,390,679**	**75,302,220,783**

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023
(IN ETHIOPIAN BIRR)

	30 June 2023	30 June 2022
Cash Flows from Operating Activities		
Profit for the year	**21,952,568,366**	**21,657,855,249**
Adjustment		
Impairment of loans and advance and debt securities	40,815,157,658	25,692,687,336
Provision for unutilized OD,LC and Guarantee	(9,809,846)	9,498,974
Reduction (allowance) for placement with other banks	133,480,534	858,062,105
Provision against non current asset held for sale	(155,889,602)	87,753,363
Depreciation and amortization	3,362,740,533	3,979,766,896
Income from subsidiary and associate recognized in profit or loss	(615,125,320)	(464,631,752)
Loss (gain) on disposal of property, plant and equipment	(10,831,330)	(10,222,760)
Loss (gain) on disposal of NCA heald for sale	(91,152,663)	(2,009,685)
Finance lease charge	24,714,701	7,480,244
	65,441,853,030	**51,816,239,969**
Movement in working capital		
Change in debt and equity security	(50,151,342,938)	(148,706,323,909)
Change in loans and advances	(72,558,312,424)	(35,933,855,198)
Change in receivables	(396,830,898)	6,041,738,082
Change in non current asset held for sale	(88,271,374)	-
Change in other assets	(1,262,554,248)	1,547,479,463
Change in restricted cash	(5,619,302,474)	(12,948,424,893)
Change in customers' deposits	162,292,374,958	154,423,506,618
Change in provisions	(115,704,667)	1,119,095,500
Change in employee benefits	2,450,265,421	2,446,152,749
Change in other liabilities	(20,318,244,997)	(3,113,387,312)
	79,673,929,389	**16,692,221,069**
Cash generated from operations		
Income taxes paid	(7,126,814,110)	(6,150,901,130)
Net cash generated by operating activities	**72,547,115,280**	**10,541,319,938**
Cash Flows from Investing Activities		
Payments for property, plant and equipment	(6,159,753,109)	(3,242,779,377)
Proceeds from disposal of property, plant and equipment	13,624,560	16,472,937
Proceeds from disposal of NCA held for sale	1,168,162,919	(10,120,323)
Payments for investments	(135,197,501)	(43,059,314)
Payment for intangibles	(473,025,549)	(465,622,122)
Payment right of use assets	(1,711,028,764)	(2,072,832,540)
Net cash used in investing activities	**(7,297,217,445)**	**(5,817,940,740)**
Cash Flows from Financing Activities		
Cash included in assets acquired		
Dividend paid	(12,378,732,197)	(9,571,909,473)
Finance lease obligation paid	(175,465,831)	(161,882,422)
Net cash outflow from financing activities	**(12,554,198,028)**	**(9,733,791,894)**

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023
(IN ETHIOPIAN BIRR)- (Continued)

	30 June 2023	30 June 2022
Increased (decrease) in cash and cash equivalents	**52,695,699,806**	**(5,010,412,696)**
Cash and cash equivalents at the beginning of the year	64,489,424,867	69,499,837,563
Cash and cash equivalents at the end of the year	**117,185,124,675**	**64,489,424,867**
Cash and cash equivalents comprise:		
Cash in hand	15,666,003,079	9,813,008,715
Balance with National Bank of Ethiopia	73,000,355,995	10,332,263,712
Placement with other banks	23,840,874,036	21,866,991,202
Treasury bills	6,913,600,000	23,765,348,515
Deposit due to other banks	(2,235,708,435)	(1,288,187,277)
Cash and cash equivalents	**117,185,124,675**	**64,489,424,867**

The accompanying notes are an integral part of this separate financial statement.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS

(29) FINANCIAL RISK REVIEW

The Bank is exposed to the following financial risks from financial instruments, for which it conducts regular risk management efforts:

- Credit risk;
- Liquidity risk;
- Market risk;
- Capital management, and
- Operational risk.

This note presents information about the Bank's exposure to each of the above risks, and the Bank's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout separate financial statement.

Risk Management Framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Loan and Risk Review Committee (LRRC) through the Loan and Risk Review Committee charter, which is responsible for providing the standards and minimum parameters to be followed in managing the bank's exposure to risk. Besides, it is also responsible for developing and monitoring effectiveness of the Bank´s risk management policies and the degree of compliance to national and international regulatory standards. The LLRC reports regularly to the Board of Directors on its activities.

The Bank´s risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to those limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank´s activities. The Bank through its training management standards and procedures aims to develop a disciplined and constructive control environment in which all the employees understand their roles and obligations.

(29) FINANCIAL RISK REVIEW - (Continued)

The Bank's Board Audit Committee oversees how management monitors compliance with the Bank´s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank´s Board Audit Committee is assisted in its oversight role by Internal Audit function. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank´s Audit Committee.

In addition, the Bank is subject to the regulations of the National Bank of Ethiopia with respect to, among others matters, comprehensive risk management, liquidity and capitalization.

(a) Credit Risk

Refer page number (51-68)

(b) Liquidity Risk

Liquidity risk is the risk that theBank either does not have sufficient resources available to meet all its obligations and commitments as and when they fall due, or can only access these financial resources at excessive cost. The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation and security.

The Bank manages liquidity risk both a short-term and medium-term basis. In short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the statement of financial position remains structurally sound.

The Asset and Liability Management Committee (ALCO) and the Risk Management Committee regularly monitor the liquidity position by analyzing the maturity structure of assets and liabilities, the stability of deposits by customer type and the compliance to minimum standards set forth by the regulations and corporate policies.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Net liquid assets are cash and cash equivalents and negotiable financial instruments that mature in less than 186 days from the date of issue.

The Bank also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advance to deposit ratio demonstrates that customer deposits are in excess of customer loans due to the emphasis placed on generating a high level of stable funding from customers.

	30 June 2023	30 June 2022
Loans and advances	330,424,281,362	293,634,583,713
Deposits from customers	1,053,965,362,206	890,730,159,377
Advances to deposits ratio	**32.97%**	**32.97%**

(29) FINANCIAL RISK REVIEW - (Continued)

(b) Liquidity Risk- (Continued)

The table below summarizes theBank's liquidity risk as at 30 June 2023 and 30 June 2022 categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

Total Financial Assets and Financial Liabilities
Amounts in Million Birr

30 June 2023	Up to 1 Momth	1-3 Months	3-month up to 1 Year	1-3 Years	Over 3 Years	Non-maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	125,576	7,008	216	2	-	49,821	**182,624**
Loans and advances to banks	7	46	283	442	381	-	**1,158**
Loans and advances to customers	21,568	11,536	55,267	39,952	200,944	-	**329,267**
Receivables						1,750	**1,750**
Investment in associates and subsidiaries						4,045	**4,045**
Equity securities and debt securities	2,869	66,145	125,686	168,002	378,582	969	**742,253**
Other assets						42,978	**42,978**
A. Total assets	**150,020**	**84,734**	**181,451**	**208,397**	**579,907**	**99,564**	**1,304,074**
II. Liabilities							
On balance sheet							
Deposits due to other banks	304				1,932		**2,236**
Customers' deposits	49,584	1,912	2,447	2	997,784		**1,051,730**
Borrowing from NBE					104,575		**104,575**
Current tax liability		6,217					**6,217**
Dividend		13,088					**13,088**
Other liabilities	573	11,413			52,029		**64,014**
B. Total liabilities	**50,460**	**32,630**	**2,447**	**2**	**1,156,319**		**1,241,860**
C. Net liquidity gap (A-B) as at 30 June 2023	**99,559**	**52,104**	**179,004**	**208,395**	**(576,412)**	**99,564**	**62,214**
Cumulative gap as at 30 June 2023	**99,559**	**151,663**	**330,667**	**539,062**	**(37,350)**	**62,214**	**124,428**

(29) FINANCIAL RISK REVIEW - (Continued)

(b) Liquidity Risk - (Continued)

Total Financial Assets and Financial Liabilities
Amounts in Million Birr

30 June 2022	Up to 1 Momth	1-3 Months	3-month up to 1 Year	1-3 Years	Over 3 Years	Non-maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	58,588	753	390	5	63,769		**123,504**
Loans and advances to banks	2	16	101	157	45		**321**
Loans and advances to customers	16,381	22,098	46,006	54,155	128,258	26,415	**293,313**
Receivables						3,020	**3,020**
Investment in associates and subsidiaries						3,295	**3,295**
Equity securities and debt securities	9,609	44,778	135,045	255,569	251,504	524	**697,029**
A. Total assets	**84,581**	**67,646**	**181,541**	**309,886**	**443,576**	**33,253**	**1,120,483**
II. Liabilities							
On balance sheet							
Deposits due to other banks	175				1,113		**1,288**
Customers' deposits	59,070	7,531	3,898	47	818,895		**889,441**
Borrowing from NBE				129,992			**129,992**
Current tax liability		7,126					**7,126**
Other liabilities	1,325	41,045			8,156		**50,526**
B. Total liabilities	**60,570**	**55,702**	**3,898**	**130,038**	**828,164**		**1,078,373**
C. Net liquidity gap (A-B) as at 30 June 2022	**24,011**	**11,943**	**177,643**	**179,847**	**(384,588)**	**33,253**	**42,110**
Cumulative gap as at 30 June 2022	**24,011**	**35,953**	**213,597**	**393,444**	**8,856**	**42,110**	**84,220**

(29) FINANCIAL RISK REVIEW - (Continued)

(b) Liquidity Risk - (Continued)

It is assumed that the fair value of the liquid assets is equivalent to the carrying amount since no discounting is involved to realize these assets into cash.

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long-term nature.

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits and other liabilities. This enhances flexibility, limits dependence on any source of funds and generally lowers the cost of funds.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy.

(c) Market Risk

The Bank recognizes market risk as the risk of loss arising from changes in market prices and rates. The Bank's exposure to market risk arises principally from customer-driven transactions and recognizes that the value of on and off-balance sheet positions of the bank are adversely affected by the movement in the market prices or rates such as interest rate, exchange rate, equity prices and commodity price that may result in loss for the bank. The objective of the Bank's market risk policies and processes is to obtain the best balance between risk and return whilst meeting customers' requirements.

The Bank's exposure to potential market risk arises mainly due to the open interest rate and exchange rate positions. All these elements are exposed to general and specific market movements and may result in the reduction of the value of a financial asset. The Asset and Liability Management Committee (ALCO) authorize the established limits and monitor results.

(a) Interest Rate Risk

The interest rate risk is the exposure of the financial position of the Bank to any losses arising from adverse movements in interest rates.

The Bank monitors the sensitivity of changes in interest rates, and determines the balance structure, different item terms and investment strategies.

The table below summarizes the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

(29) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk - (Continued)

(a) Interest Rate Risk - (Continued)

Exposure to Interest Rate Risk
(Amounts in Millions Birr)

30 June 2023	Up to 1 Month	1-3 Months	3-month up to 1 Year	1-3 Years	Over 3 Years	Non -interest Sensitive Items	Total
I. Assets							
A. Interest rate sensitive assets							
Cash & balances with NBE						182,624	**182,624**
Loans and advances to banks	7	46	283	442	381		**1,158**
Loans and advances to customers	21,568	11,536	55,267	39,952	200,944		**329,267**
Debt securities	2,869	66,145	125,686	168,002	377,615	967	**741,283**
Total rate sensitive assets	**24,444**	**77,726**	**181,236**	**208,395**	**578,940**	**183,590**	**1,254,331**
II. Liabilities							
B. Rate sensitive liabilities							
Deposits due to other banks	304				1,932		**2,236**
Customers' deposits	49,584	1,912	2,447	2	536,547	461,237	**1,051,730**
Borrwings from NBE							
Total rate sensitive liabilities	**49,888**	**1,912**	**2,447**	**2**	**538,479**	**461,237**	**1,053,965**
C. Rate sensitive gap	**(25,444)**	**75,814**	**178,788**	**208,393**	**40,462**	**(277,647)**	**200,366**
Cumulative rate sensitive gap	**(25,444)**	**50,370**	**229,158**	**437,551**	**478,013**	**200,366**	**400,732**
Adjusted interest rate change	**0.14**	**0.25**	**1.5**	**1**	**1**		
Relative gap ratio (RSG to total asset)	**(17%)**	**89%**	**99%**	**100%**	**7%**		**15%**
Total asset	**150,020**	**84,734**	**181,451**	**208,397**	**579,907**	**99,564**	**1,304,074**

(29) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk - (Continued)

(a) Interest Rate Risk - (Continued)

Exposure to Interest Rate Risk
Amounts in Millions Birr

30 June 2022	Up to 1 Month	1-3 Months	3-month up to 1 Year	1-3 Years	Over 3 Years	Non -interest Sensitive Items	Total
I. Assets							
A. Interest rate sensitive assets							
Cash & balances with NBE							
Loans and advances to banks	2	16	100	157	45		**321**
Loans and advances to customers	16,383	22,098	46,006	54,155	128,456	26,415	**293,313**
Debt securities	9,609	44,778	135,045	255,569	250,980	524	**696,505**
Total rate sensitive assets	**25,994**	**66,892**	**181,151**	**309,881**	**379,481**	**26,939**	**990,338**
II. Liabilities							
B. Rate sensitive liabilities							
Deposits due to other banks	175			1,113			**1,288**
Customers' deposits	59,070	7,531	3,898	47	818,895		**889,441**
Borrwings from NBE							
Total rate sensitive liabilities	**59,245**	**7,531**	**3,898**	**1,160**	**818,895**		**890,729**
C. Rate sensitive gap	**(33,251)**	**59,361**	**177,253**	**308,721**	**(439,414)**	**26,939**	**99,609**
Cumulative rate sensitive gap	**(33,251)**	**26,110**	**203,363**	**512,084**	**72,670**	**99,609**	**199,218**
Adjusted interest rate change	**0.14**	**0.25**	**1.5**	**1**	**1**		
Relative gap ratio (RSG to total asset)	**(39%)**	**39%**	**112%**	**165%**	**16%**		**18%**
Total asset	**84,581**	**67,646**	**181,541**	**309,886**	**443,576**	**33,253**	**1,120,483**

(29) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk – (Continued)

(b) Exchange Rate Risk

Exchange rate risk is the risk a financial instrument's value fluctuates as a result of changes in the exchange rates of foreign currencies and other financial variables. Foreign exchange rate risks arise from financial instruments denominated in currencies other than the Bank's functional currency.

The Bank's foreign currency denominated assets and liability accounts may result in translational gain/ loss depending on the net open position and direction of the exchange rate movement. To control the risk, the net position in each foreign currency is managed on a daily basis.

The various foreign currencies to which the Bank is exposed to are summarized below:

Currency Type	30 June 2023	30 June 2022
	Amount in Thousands of Foreign Currency	Amount in Thousands of Foreign Currency
1. On B/S FCY assets		
AED	1,450	1,592
CAD	481	293
CHF	1,204	769
DJF	89,967	46,223
DKK	2,661	902
EUR	17,383	5,765
GBP	4,531	803
INR	176,371	60,687
JPY	33,922	5,851
KES	19,546	11,510
KWD	18	34
AUD	8	100
SAR	1,564	3,044
SEK	7,556	16,778
USD	636,481	636,945
NOK	1,917	1,481
XAF	3,708	
2. On B/S FCY liabilities		
DJF	36	398
EUR	96,698	65,514
GBP	6,034	2,487
USD	975,976	918,737
JPY	760	760

(29) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk – (Continued)

Sensitivity Analysis

As can be witnessed in the exchange rate movement during the year, the tendency of further depreciation of Birr is expected. Hence, we have considered two senarios of Birr devaluation by 15% and 20%.

In order to see the impact on the financial performance of CBE, the sensitivity is applied to the open position in USD, GBP and other currencies.

Stressed by 15% Birr Devaluation
Amounts in Millions Birr

S.No.	Descriptions	Multiplying Factor	Actual Position	Stressed by 15% Birr Devaluation	Change
1	**Overall open position**		**(247,659)**	**(284,512)**	**(36,853)**
1.1	Net short open position – USD		(234,256)	(269,395)	(35,138)
1.2	Net short open position – EUR		(11,428)	(13,143)	(1,714)
1.3	Net short open position - other currencies		(1,974)	(1,974)	-
2	**Total, capital**		**62,279**	**62,279**	**-**
2.1	Capital charge (8%)	0.08*1	19,813	22,761	2,948
2.2	Forex risk capital charge to total capital ratio	2.1/2	318	365	(47)
3	**Overall open position to capital ratio**		**(398)**	**(457)**	**(59)**
4	**Profit before tax projection**				**21,880**
5	**Total, gain/loss due to depreciation of Birr against USD**				**(12,650)**
5.1	Gain/Loss from FCY denominated on balance sheet				(7,028)
5.2	Gain/Loss from FCY denominated off balance sheet (20%)				(5,622)
6	**Total, Gain/Loss due to depreciation of Birr against EUR**				**(617)**
6.1	Gain/Loss from FCY denominated on balance sheet				(343)
6.2	Gain/Loss from FCY denominated off balance sheet (20%)				(274)
7	**Total, gain/loss due to depreciation of Birr against USD and EUR (5+6)**				**(13,267)**
8	**Post shock profit/loss**				**8,613**
9	**Impact on capital**				**-**
10	**Post-shock capital**				**-**

(29) FINANCIAL RISK REVIEW - (Continued)

(c) Market Risk – (Continued)

Sensitivity Analysis - (Continued)

Stressed by 20% Birr Devaluation
Amounts in Millions Birr

S.No.	Descriptions	Multiplying Factor	Actual Position	Stressed by 20% Birr Devaluation	Change
1	**Overall open position**		**(247,659)**	**(296,796)**	**(49,137)**
1.1	Net short open position – USD		(234,256)	(281,107)	(46,851)
1.2	Net short open position – EUR		(11,428)	(13,714)	(2,286)
1.3	Net short open position - other currencies		(1,974)	(1,974)	-
2	**Total, capital**		**62,279**	**62,279**	**-**
2.1	Capital charge (8%)	0.08*1	19,813	23,744	3,931
2.2	Forex risk capital charge to total capital ratio	2.1/2	318	381	(63)
3	**Overall open position to capital ratio**		**(398)**	**(477)**	**(79)**
4	**Profit before tax projection**				**21,880**
5	**Total, Gain/Loss due to depreciation of Birr against USD**				**(16,866)**
5.1	Gain/Loss from FCY denominated on balance sheet				(9,370)
5.2	Gain/Loss from FCY denominated off balance sheet (20%)				(7,496)
6	**Total, gain/loss due to depreciation of Birr against EUR**				**(823)**
6.1	Gain/Loss from FCY denominated on balance sheet				(457)
6.2	Gain/Loss from FCY denominated off balance sheet (20%)				(366)
7	**Total, gain/loss due to depreciation of Birr against USD and EUR (5+6)**				**(17,689)**
8	**Post shock profit/loss**				**4,191**
9	**Impact on capital**				**-**
10	**Post-shock capital**				**-**

(29) FINANCIAL RISK REVIEW - (Continued)

(d) Operational Risk Management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Operational risks arise from all of the Bank's operations and are faced by all business units. As such, the Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, control and report such risks. The scope of operational risk assessment of any process shall be determined based on various factors among them:

- The level of perceived risks;
- Previous operational risk assessment risks;
- Business criticality of the activities, process or product under consideration;
- The presence of overarching regulatory requirement; and
- Management's need for further examination of ongoing operations (such as lines of business, product, service and processes individually or in combinations).

Every risk assessment unit shall perform a risk assessment on its respective processes/units, at least on an annual basis. The Risk and Compliance Management process may request for more frequent risk assessment, if the need arises, primarily based on the perceived level of risk of the respective risk assessment unit/process.

(e) Capital Management

The National Bank of Ethiopia, has issued directive number SBB/4/95 that dictates every bank transfer on an annual basis, 25% of its annual net profit to its legal reserve account until such account equals its capital. When the legal reserve account equals the Bank's capital, the amount to be transferred to the legal reserve account shall be 10% of the annual net profit.

The Bank's capital is therefore managed in accordance with NBE directives and proclamation on banking business and those of subsidiaries capital is managed in accordance with the commercial code and other related laws.

In addition to regulatory requirements, CBE conducts objective analysis on the adequacy of its capitalization on a regular basis. Based on the result of rigorous analysis made on capital management and adequacy, CBE injects additional capital after proposing the required amountof additional capital to the Ministry of Finance and upon approval by the house of peoples' representatives of the Federal Democratic Republic of Ethiopia.

The National Bank of Ethiopia requires a bank to maintain at all times:

- Primary or Tier 1 capital: state capital/paid-up capital, declared reserves and Accumulated Profit or loss.
- Secondary or Tier 2 capital: Includes qualified equity instruments. However, CBE does not have any tier-2 capital account in its statement of financial position.

(29) FINANCIAL RISK REVIEW - (Continued)

(e) Capital Management - (Continued)

The Bank and its individually regulated subsidiaries have met with all of the external capital requirements to which they are subject. As of 30 June 2023, and 30 June 2022 respectively, the Bank's regulatory capital position was as follows:

	30 June 2023	30 June 2022
Capital - Level 1		
State capital	40,000,000,000	40,000,000,000
Legal reserves	23,688,151,649	19,325,469,026
CBE NOOR reserve	24,105,344	19,412,058
Accumulated profit or loss.	13,088,047,869	12,378,732,197
Statutory reserve	90,827,390	1,756,847,304
Total	**76,891,132,252**	**73,480,460,585**
Capital - Level 2		
Fair value reserve	289,390,679	181,005,199
Re-measurement of defined benefit liability	(1,878,302,148)	(1,757,463,448)
Total	**(1,588,911,469)**	**(1,576,458,249)**
Total regulatory capital	**75,302,220,784**	**71,904,002,336**
Total assets and weighted contingencies	**288, 527, 900, 671**	**257,089, 417,439**
Total regulatory capital / risk weighted assets	**26.10%**	**27.97%**

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Accounting Classifications

Fair value of a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximizes the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(a) Accounting Classifications - (Continued)

The following sets out the Bank's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued using discounted cash flow method or quoted market prices for securities with similar yield characteristics.

During the current year, there was sufficient information available to measure the fair value of financial instruments based on observable market inputs. In the previous year, the available-for-sale equity instruments were measured at cost because the fair value was not considered to be reliably measurable. Loans and advances to customers and Loans to micro-finance institutions are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value hence their fair values approximate their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value if fixed interest-bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with similar maturities and interest rates, hence their fair value approximates their carrying amounts.

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(a) Accounting Classifications - (Continued)

The table below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

						Fair Value		
	Amortized Cost	FVOCI	FVTPL	Total Carrying Amounts	Level 1	Level 2	Level 3	Fair Value
30 June 2023	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**
Financial instruments								
Financial assets								
Cash and balances with NBE	127,522,007,614			127,522,007,614				
Treasure bill	97,592,960,098			97,592,960,098				
Placement with other banks	33,673,477,875			33,673,477,875				
Loans and advances to customers	329,266,772,207			329,266,772,207				
Loans to micro-finance institutions	1,157,509,155			1,157,509,155				
Debt securities	650,604,066,580			650,604,066,580				
Equity securities		969,165,622		969,165,622		969,165,622		969,165,622
Receivables	1,750,432,669			1,750,432,669				
Investment in subsidiaries	3,634,487,035			3,634,487,035				
Investment in associates		410,773,292		410,773,292		410,773,292		410,773,292
Total financial assets	**1,245,201,713,233**	**1,379,938,914**		**1,246,581,652,147**		**1,379,938,914**		**1,379,938,914**
Financial liabilities								
Deposits due to other banks	2,235,708,435			2,235,708,435				
Customers' deposits	1,051,729,653,771			1,051,729,653,771				
Current tax liability	6,217,082,758			6,217,082,758				
Other liabilities	104,574,708,536			104,574,708,536				
Total financial liabilities	**1,164,757,153,500**			**1,164,757,153,500**				

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(a) Accounting Classifications - (Continued)

						Fair Value		
	Amortized Cost	**FVOCI**	**FVTPL**	**Total Carrying Amounts**	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
30 June 2022	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**
Financial instruments								
Financial assets								
Cash and balances with NBE	58,353,915,331			58,353,915,331				
Treasure bill	115,697,699,247			115,697,699,247				
Placement with other banks	32,589,742,155			32,589,742,155				
Loans and advances to customers	293,313,149,372			293,313,149,372				
Loans to micro-finance institutions	321,434,341			321,434,341				
Debt securities	696,505,321,915			696,505,321,915				
Equity securities		523,633,929		523,633,929		523,633,929		523,633,929
Receivables	3,019,621,686			3,019,621,686				
Investment in subsidiaries	2,931,216,628			2,931,216,628				
Investment in associates		320,184,736		320,184,736		320,184,736		320,184,736
Total financial assets	**1,202,732,100,675**	**843,818,665**		**1,203,575,919,340**		**843,818,665**		**843,818,665**
Financial liabilities								
Deposits due to other banks	1,288,187,277			1,288,187,277				
Customers' deposits	889,441,972,100			889,441,972,100				
Current tax liability	7,126,814,110			7,126,814,110				
Other liabilities	129,991,557,352			129,991,557,352				
Total financial liabilities	**1,027,848,530,839**			**1,027,848,530,839**				

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

(b) Valuation Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of available-for-sale financial assets by valuation technique:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation using significant non-market observable inputs
Types of financial assets:	Actively traded government and other agency securities Listed derivative instruments Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters
Types of financial liabilities:	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

(31) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest income	30 June 2023	30 June 2022
Loans and advances to customers	33,000,951,842	31,500,603,239
Debt securities & bank balances	54,808,462,753	50,676,031,364
Total interest income	**87,809,414,594**	**82,176,634,602**

The Bank assessed whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. For credit impaired financial assets, the bank has applied effective interest rate to amortised cost of the financial asset in subsequent reporting periods.

Interest expense	30 June 2023	30 June 2022
Interest expense	45,721,592,196	38,767,207,980
Total interest expense	**45,721,592,196**	**38,767,207,980**

(32) NON-INTEREST INCOME AND EXPENSES

Non-interest income	30 June 2023	30 June 2022
Commissions	20,530,256,700	23,267,291,322
Bank services and transaction fees	4,278,128,498	6,245,571,468
Discount earned on securities	432,598,541	476,076,747
Other income	2,985,679,857	1,389,003,994
Total non-interest income	**28,226,663,596**	**31,377,943,532**

The Bank recognises revenue when satisfy its performance obligation. The bank has determined that its revenue from contracts with customer does not contain a significant financing component but deal with a significant number of contracts with customers. It is disclosed aggregating with non-interest income. Information about the Bank's significant accounting policies relating to revenue from contratcts with customer is provided in note 4(r).

Non-interest expense	30 June 2023	30 June 2022
Salaries and employee benefits	28,031,521,630	19,238,350,020
Outsourcing service expense	3,528,197,713	2,252,817,029
License fee	734,755,102	518,005,889
Depreciation and amortization	1,745,752,218	1,766,161,115
Deprecation right of use asset	1,620,154,353	1,454,262,015
Advertising and publicity	322,400,153	398,153,855
Repairs and maintenance	755,417,865	504,434,520
Electronic data process	656,662,586	520,334,923
Stationery and office supplies	817,938,094	370,866,867
Discount loss	432,598,541	476,077,001
Donation and contribution expense	1,576,976,405	411,708,954
Other expenses	4,032,139,172	3,621,198,257
Total non- interest expenses	**44,254,513,834**	**31,532,370,446**

(33) CASH AND CASH EQUIVALENTS

		30 June 2023	30 June 2022
Cash on hand	ETB	15,666,003,079	9,813,008,715
Cash reserve with National Bank of Ethiopia		54,521,651,619	48,021,651,619
Treasury bills		6,913,600,000	23,765,348,516
Placements with other banks		33,673,477,875	32,589,742,155
Payment and settlement accounts:			
with National Bank of Ethiopia		73,000,355,995	10,332,263,712
		183,775,088,569	**124,522,014,718**
Less: loss allowances		(1,151,546,977)	(1,018,066,443)
		182,623,541,592	**123,503,948,275**

Loss allowances for cash and cash equivalents are comprised as follows:

		30 June 2023	30 June 2022
Cash reserve with NBE	ETB	54,521,651,619	48,021,651,619
Payment and settlement accounts with NBE		73,000,355,995	10,332,263,712
		127,522,007,614	58,353,915,331
Allowance for loss		(565,330,780)	(258,694,676)
Domestic bank account balances, net		**126,956,676,834**	**58,095,220,655**
Placements with other banks		33,673,477,875	32,589,742,155
Allowance for loss		(4,961,498)	(5,158,641)
Correspondent account balances, net		**33,668,516,377**	**32,584,583,513**
Treasury bills		6,913,600,000	23,765,348,516
Allowance for loss		(581,254,698)	(754,213,125)
Treasury bills cash & cash equivalent, net		**6,332,345,302**	**23,011,135,391**

The cash reserves are non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2023 and 30 June 2022, the cash reserve requirement was 5%, for the two dates of the eligible deposits. Out of the total placement with other Banks ETB9,832,603,838.96as at 30 June 2023 and ETB 10,722,750,953 as at 30 June 2022 represent the debt service reserve account in relation to the master loan agreement made at EXIM Bank of China on behalf of State Owned Enterprises. These funds are not available to finance the Bank's day-to-day operations.

The Bank reclassified Treasury bills maturing in 90 days as cash and cash equivalents, with the remaining as investments in securities.

(34) DEBT AND EQUITY SECURITIES

		30 June 2023	30 June 2022
Debt securities	ETB	741,283,426,678	696,505,321,915
Equity securities		969,165,622	523,633,929
Debt and equity securities		**742,252,592,299**	**697,028,955,844**

i. Debt Securities

This account is comprised as follows:

		30 June 2023	30 June 2022
Held to maturity	ETB	752,445,001,102	702,739,189,857
Allowance for impairment losses		(11,161,574,425)	(6,233,867,941)
		741,283,426,678	**696,505,321,915**

		30 June 2023	30 June 2022
Coupon bonds	ETB	44,618,342,385	57,313,564,093
Corporate bonds		583,357,777,088	528,228,250,711
Treasury & DBE bonds		11,519,557,572	985,097,260
Government securities		22,269,963,959	24,279,927,062
Treasury bills		90,679,360,098	91,932,350,731
		752,445,001,102	**702,739,189,857**

The interest receivable related to these investment securities is broken down as follows:

Interest receivable	30 June 2023	30 June 2022
Coupon bonds	715,405,134	3,201,314,452
Corporate bonds	69,622,463,403	79,762,060,750
Treasury & DBE bonds	407,625,572	10,097,260
Total	**70,745,494,108**	**82,973,472,462**

The allowance for impairment losses related to debt securitiesis broken down as follows:

Allowance for impairment losses	30 June 2023	30 June 2022
Corporate and coupon bonds	10,944,983,592	6,070,343,035
Government securities	142,750,469	163,524,907
Treasury bonds	59,932,649	-
DBE bonds	13,907,716	-
	11,161,574,425	**6,233,867,941**

(34) DEBT AND EQUITY SECURITIES - (Continued)

ii. Equity Securities

	30 June 2023	30 June 2022
Ethswitch Share Company	312,497,331	164,170,000
African Export Import Bank	637,100,000	350,210,000
S.W.I.F.T. SCRL	10,568,291	9,253,929
	969,165,622	**523,633,929**

The change in the carrying amount of equity securities comprises:

Ethswitch Share Company	30 June 2023	30 June 2022
At 1 July at cost	164,170,000	137,703,276
Additions	11,735,751	-
Changes in fair value	145,591,580	26,466,724
	321,497,331	**164,170,000**

African Export Import Bank	30 June 2023	30 June 2022
At 1 July at cost	350,210,000	248,202,194
Additions	278,959,542	7,220,805
Changes in fair value	7,930,458	94,787,002
	637,100,000	**350,210,000**

S.W.I.F.T. SCRL	30 June 2023	30 June 2022
At 1 July at cost	9,253,929	7,647,264
Additions	-	-
Changes in fair value	1,314,361	1,606,665
	10,568,291	**9,253,929**

Current year unrealized gain arising from measurement at fair value was ETB 154,836,399 and related tax 30% ETB 46,450,920.The additional fair value reserve at 30 June 2023 was ETB 108,385,479. Information about the fair value measurement of the Bank's equity securities is provided in Note 10(ii).

(35) LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

Below is the composition of loans and advances to customers divided by category as well as its provision for impairment as of the reporting dates:

	30 June 2023	30 June 2023	30 June 2023
Loans and Advances	**Gross Amount**	**Allowance for Loan Losses**	**Book Value**
Agriculture			
Term loan	29,355,814,306	(1,087,391,646)	28,268,422,660
Overdraft	63,441,825	(2,927,805)	60,514,020
	29,419,256,131	**(1,090,319,451)**	**28,328,936,680**
Manufacturing			
Term loan	194,553,029,878	(21,033,242,304)	173,519,787,574
Overdraft	7,941,371,340	(810,205,065)	7,131,166,275
	202,494,401,219	**(21,843,447,370)**	**180,650,953,849**
Domestic & trade services			
Term loan	34,356,711,043	(4,943,338,368)	29,413,372,674
Overdraft	3,315,666,555	(214,952,352)	3,100,714,203
	37,672,377,597	**(5,158,290,720)**	**32,514,086,878**
International trade			
Term loan	9,015,225,299	(3,614,117,625)	5,401,107,674
Overdraft	1,550,219,454	(235,641,335)	1,314,578,119
	10,565,444,753	**(3,849,758,959)**	**6,715,685,794**
Building and construction			
Term loan	11,513,486,547	(3,074,608,872)	8,438,877,675
Overdraft	456,784,343	(111,230,881)	345,553,461
	11,970,270,890	**(3,185,839,753)**	**8,784,431,136**
Consumer loan			
Term loan	42,226,389,018	(241,092,388)	41,985,296,630
	42,226,389,018	**(241,092,388)**	**41,985,296,630**
Loan & advance for employee			
Term loan	9,821,562,576	(1,940,356)	9,819,622,220
	9,821,562,576	**(1,940,356)**	**9,819,622,220**
CBE NOOR Financing			
Murabaha finance	20,861,036,169	(393,277,148)	20,467,759,022
Total loans to customers	**365,030,738,352**	**(35,763,966,145)**	**329,266,772,207**

(35) LOANS AND ADVANCES TO CUSTOMERS - (Continued)

(a) Classification - (Continued)

	30 June 2022	30 June 2022	30 June 2022
Loans and Advances	**Gross Amount**	**Allowance for Expected Credit Losses**	**Book Value**
Agriculture			
Term loan	6,498,117,149	(1,744,183,812)	4,753,933,337
Overdraft	13,081,969	(2,659,658)	10,422,311
	6,511,199,118	**(1,746,843,470)**	**4,764,355,648**
Manufacturing			
Term loan	173,510,675,116	(19,099,112,799)	154,411,562,317
Overdraft	4,113,980,138	(462,075,726)	3,651,904,412
	177,624,655,254	**(19,561,188,525)**	**158,063,466,729**
Domestic & trade services			
Term loan	16,898,953,257	(3,382,850,080)	13,516,103,177
Overdraft	1,206,964,292	(100,516,951)	1,106,447,341
	18,105,917,549	**(3,483,367,031)**	**14,622,550,518**
International trade			
Term loan	39,669,331,263	(3,463,382,887)	36,205,948,376
Overdraft	2,138,543,287		2,138,543,287
Advance loan	12,783,822,353	(78,021,928)	12,705,800,425
	54,591,696,902	**(3,541,404,815)**	**51,050,292,088**
Building and construction			
Term loan	23,736,761,948	(3,851,989,647)	19,884,772,301
Overdraft	291,205,794	(143,847,415)	147,358,379
	24,027,967,741	**(3,995,837,062)**	**20,032,130,680**
Mining and quarring			
Term loan	21,984,400		21,984,400
	21,984,400		**21,984,400**
Consumer loan			
Term loan	29,695,024,938	(127,961,605)	29,567,063,333
	29,695,024,938	**(127,961,605)**	**29,567,063,333**
Loan & advance for employee			
Term loan	6,294,327,549	(1,538,313)	6,292,789,236
	6,294,327,549	**(1,538,313)**	**6,292,789,236**
CBE NOOR Financing	**9,229,006,932**	**(330,490,190)**	**8,898,516,742**
	9,229,006,932	(330,490,190)	8,898,516,742
Total	**326,101,780,383**	**(32,788,631,011)**	**293,313,149,372**

(35) LOANS AND ADVANCES TO CUSTOMERS - (Continued)

(b) Allowance for Expected Credit Losses

	Allowance for expected credit losses
At 30 June 2021	**11,210,048,151**
Impairment recognized during the year	21,578,599,257
At 30 June 2022	**32,788,647,408**
Impairment recognized during the year	2,979,967,368
At 30 June 2023	**35,768,614,776**

(36) LOANS TO MICRO-FINANCE INSTITUTIONS

(a) Classification

Below is the composition of loans to financial institutions divided by category as well as its provision for impairment as of the reporting dates:

		30 June 2023	30 June 2022
	ETB		
Conventional loan and advances			
Terms loans		802,726,687	321,450,738
Overdraft		281,881,922	-
Allowance for expected credit losses		(4,338,434)	(16,397)
		1,080,270,174	**321,434,341**
CBE NOOR financing			
Terms loans		77,549,176	-
Allowance for expected credit losses		(310,197)	-
		77,238,979	-
Total		**1,157,509,154**	**321,434,341**

(b) Impairment Losses on Loans and Advances to Financial Institutions

		30 June 2023	30 June 2022
At 1 July 2022	ETB	16,397	10,205
Amounts recognized (reduced) during the year		4,632,234	6,192
As at 30 June 2023		**4,648,631**	**16,397**

(37) RECEIVABLES

		30 June 2023	30 June 2022
Government receivables	ETB	1,230,978,839	1,230,978,839
Foreign receivables		243,451,530	350,297,437
Other receivables		2,059,507,331	1,849,387,763
Staff loans – prepayments		2,251,291,596	1,996,809,246
		5,785,229,296	**5,427,473,285**
Less: staff loan contra account		(2,251,291,596)	(1,996,809,246)
Allowance for expected losses		(1,783,505,031)	(411,042,353)
		1,750,432,669	**3,019,621,686**

Provisions for doubtful debts

	30 June 2023	30 June 2022
Balance as at 1 July	(411,042,353)	(1,841,080,944)
Additional provision during the year	(1,372,462,678)	1,430,038,591
Doubtful debts written off during the year	-	-
Impairment reduction during the year	-	-
Balance as at 30 June 2023	**(1,783,505,031)**	**(411,042,353)**

(38) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates as of 30 June 2023 and 2022 are as follows:

Subsidiaries		30 June 2023	30 June 2022
Commercial Nominees PLC (100% participation)	ETB	3,111,505,425	2,577,159,392
Commercial Bank of Ethiopia(CBE) South Sudan Limited (100% ownership)		454,754,909	427,865,734
Commercial Bank of Ethiopia (CBE) Djibouti Limited (100% ownership)		68,226,701	61,389,002
		3,634,487,035	**3,066,414,129**

Associates	30 June 2023	30 June 2022
Ethiopian Reinsurance S.C	410,773,292	363,720,878
Total investment in associates	410,773,292	363,720,878
Total investment in subsidiaries and associates	**4,045,260,327**	**3,430,135,007**

(38) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES – (Continued)

(a) Commercial Nominees PLC & Bole Printing Enterprise

	30 June 2023	30 June 2022
Percentage ownership interest	100%	100%
Revenue (100%)	2,981,147,856	2,753,984,489
Total comprehensive income (100%)	534,346,033	394,305,115
CBE's share of total comprehensive income (100%)	**534,346,033**	**394,305,115**

(b) Commercial Bank of Ethiopia (CBE) South Sudan Limited

	30 June 2023	30 June 2022
Percentage ownership interest	100%	100%
Revenue (100%)	69,434,000	43,504,508
Total comprehensive income (100%)	26,889,175	33,383,612
CBE's share of total comprehensive income (100%)	**26,889,175**	**33,383,612**

(c) Commercial Bank of Ethiopia (CBE) - Djibouti Limited

	30 June 2023	30 June 2022
Percentage ownership interest	100%	100%
Revenue (100%)	44,710,278	36,910,391
Total comprehensive income (100%)	6,837,698	(6,593,116)
CBE's share of total comprehensive income (100%)	**6,837,698**	**(6,593,116)**

(d) Ethiopian Re-insurance Share Company

Investments in associates as of 30 June, 2023 and 2022 are as follows:

	30 June 2023	30 June 2022
Percentage ownership interest	20.00%	20.00%
Revenue (100%)	1,443,132,830	960,571,705
Total comprehensive income (100%)	235,262,069	217,680,710
CBE's share of total comprehensive income (20%)	**47,052,414**	**43,536,142**

(39) NON-CURRENT ASSETS HELD FOR SALE

		2022/23		
Costs		**Building**	**Movable property**	**Total**
At 1 July 2022	**ETB**	**785,463,886**	**250,708,767**	**1,036,172,653**
Acquisition		130,105,245	25,784,358	155,889,602
Transfer to property, plant and equipment				
Sale/Disposal		(825,256,553)	(251,753,704)	(1,077,010,256)
Total		**90,312,578**	**24,739,421**	**115,051,999**
Less provisions				
Impairment loss on acquired assets		(24,099)	(176,285,134)	(176,309,233)
Movement for the year		-	88,271,373	88,271,373
Closing balance		**(24,099)**	**(88,013,761)**	**(88,037,860)**
Non-current assets held for sale as at 30 June 2023		**90,288,478**	**(63,274,340)**	**27,014,138**

		2021/22		
Costs		**Building**	**Movable property**	**Total**
At 1 July 2021	ETB	781,736,109	242,306,536	1,024,042,645
Acquisition		6,900,001	8,402,230	15,302,231
Transfer to property, plant and equipment		(244,213)		(244,213)
Sale/Disposal		(2,928,011)		(2,928,011)
Total		**785,463,886**	**250,708,767**	**1,036,172,653**
Less provisions				
Impairment loss on acquired assets		(284,497)	(88,271,373)	(88,555,870)
Movement for the year		260,398	(88,013,761)	(87,753,363)
Closing balance		**(24,099)**	**(176,285,134)**	**(176,309,233)**
Non-current assets held for sale as at 30 June 2022		**785,439,787**	**74,423,633**	**859,863,419**

The bank management committed to plan to sell some assets kept under this category for more than a year.In 2023 the Bank sold 67% of non current assets held for sale and the remaining assets in this group are presented for auction at least once a year.

(40) INVESTMENT PROPERTY

Investment property comprises office buildings that are leased to third parties under operating leases.

The leases of investment properties contain initial non-cancellable lease terms of between one and five years. Some leases provide the lessees options to extend at the end of the term. Subsequent renewals are negotiated with the lessees.

For all investment property, the rental income is fixed under the contracts.

	30 June 2023	30 June 2022
Balance as at 1 July	563,187	186,977
Reclassification	-	376,209
Depreciation	(18,595)	
Balance as at 30 June 2023	**544,592**	**563,187**

The above items of investment property are depreciated on a straight-line basis at a rate of 5% per year.

(41) PROPERTY, PLANT AND EQUIPMENT

ETB	Balance at 01 July 2022	Additions	Disposal	Transfer/ Reclassifications	Balance at 30 June 2023
Cost					
Building	3,939,767,010	-	-	6,689,975,645	10,629,742,655
Computer and software	3,644,115,291	1,809,065,397	(180,693)	(68,226)	5,452,931,769
Fixtures, fittings and equipment	5,288,878,288	2,361,203,530	(41,042,359)	16,916,368	7,625,955,827
Motor vehicles	2,353,492,457	835,337,065	(8,150,913)	-	3,180,678,609
Work in progress	7,328,283,791	1,154,147,118	-	(6,706,823,787)	1,775,607,123
	22,554,536,838	**6,159,753,109**	**(49,373,965)**	**-**	**28,664,915,982**
Depreciation					
Building	(693,589,849)	(154,988,211)	-	18,595	(848,559,465)
Computer and software	(2,666,312,327)	(502,210,700)	178,886	67,544	(3,168,276,596)
Fixtures, fittings and equipment	(3,742,392,345)	(671,725,675)	40,288,665	(67,544)	(4,373,896,899)
Motor vehicles	(1,245,576,348)	(256,349,905)	6,113,185	-	(1,495,813,068)
	(8,347,870,868)	**(1,585,274,491)**	**46,580,735**	**18,595**	**(9,886,546,028)**
Net carrying amount	**14,206,665,970**	**4,574,478,618**	**(2,793,230)**	**18,595**	**18,778,369,954**

Property, plant, and equipment worth ETB 7,218,368,780.08 were fully depreciated during the year (2023) but continue to provide economic benefit to the Bank.

The Bank has freehold land amounting total areas of 691,108.23 Meter square. Freehold land is not depreciated and the recognition of freehold land occurs at the date when control passes to the Bank.

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year 2023, (2022: Nil).

(41) PROPERTY, PLANT AND EQUIPMENT - (Continued)

ETB	Balance at 01 July 2021	Additions	Disposal	Transfer/ Reclassifications	Balance at 30 June 2022
Cost					
Building	3,594,706,030	21,450		345,039,531	3,939,767,010
Computer and software	2,945,275,188	692,894,739	(72,989)	6,018,353	3,644,115,291
Fixtures, fittings and equipment	4,576,938,692	629,886,675	(261,406,494)	343,459,415	5,288,878,288
Motor vehicles	2,193,965,981	170,102,962	(10,576,486)		2,353,492,457
Work in progress	6,263,477,952	1,753,548,525		(698,192,273)	7,318,834,204
	19,574,363,843	**3,246,454,351**	**(272,055,969)**	**(3,674,974)**	**22,545,087,251**
Depreciation					
Building	(571,176,269)	(122,413,579)			(693,589,849)
Computer and software	(2,291,331,014)	(381,016,835)	72,259	5,963,264	(2,666,312,327)
Fixtures, fittings and equipment	(2,980,673,687)	(1,014,343,372)	258,587,977	(5,963,264)	(3,742,392,345)
Motor vehicles	(899,580,858)	(353,141,046)	7,145,556		(1,245,576,348)
	(6,742,761,828)	**(1,870,914,832)**	**265,805,792**		**(8,347,870,868)**
Net carrying amount	**12,831,602,015**	**1,375,539,519**	**(6,250,177)**	**(3,674,974)**	**14,197,216,383**

(42) INTANGIBLE ASSETS

2023		Software
Cost	**ETB**	
Balance at 1 July 2022		1,051,537,063
Additions		473,025,549
Balance at 30 June 2023		**1,524,562,612**
Amortization and impairment		
Balance at 1 July 2022		606,115,711
Additions		159,722,582
Balance at 30 June 2023		**765,838,294**
Net carrying value		**758,724,318**

2022		Software
Cost	**ETB**	
Balance at 1 July 2021		585,914,940
Additions		465,622,122
Balance at 30 June 2022		**1,051,537,063**
Amortization and impairment		
Balance at 1 July 2021		451,973,942
Additions		154,141,769
Balance at 30 June 2022		**606,115,711**
Net carrying value		**445,421,352**

Intangible assets relate to software that includes banking and other related softwares.

The amortization expense recognized within non-interest expense for the year ended 30 June 2023 was ETB 159,722,582 (2022: ETB 154,014,769).

(43) OTHER ASSETS

		30 June 2023	30 June 2022
Purchase in progress	ETB	2,658,189,332	2,206,960,617
Stationery and other supplies		900,510,482	487,455,916
IT expansion project		958,741,533	1,502,271,683
Prepaid		4,523,085,660	4,767,121,298
Others		1,861,947,427	676,110,672
		10,902,474,434	**9,639,920,186**

(44) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS

The Bank leases a number of assets including land and buildings. Information about leases for which the Bank is a lessee is presented below:

a. Right-of-use Assets

2022/23	Land	Building	Total
Cost			
Balance at 01 July 2022	97,970,491	10,359,169,651	10,457,140,142
Adjustment		32,528,338	32,528,338
Additions		1,838,768,673	1,838,768,673
Balance at 30 June 2023	**97,970,491**	**12,230,466,663**	**12,328,437,154**
Depreciation			
Balance at 01 July 2022	14,743,047	6,116,327,167	6,131,070,214
Adjustment		15,740,528	15,740,528
Additions	2,003,675	1,599,999,256	1,602,002,931
Balance at 30 June 2023	**16,746,722**	**7,732,066,951**	**7,748,813,673**
Net carrying value	**81,223,768**	**4,498,399,712**	**4,579,623,481**

2021/22	Land	Building	Total
Cost			
Balance at 01 July 2021	97,970,491	7,959,683,704	8,057,654,194
Adjustment		498,696,439	498,696,439
Additions		1,900,789,509	1,900,789,509
Balance at 30 June 2022	**97,970,491**	**10,359,169,651**	**10,457,140,142**
Depreciation			
Balance at 01 July 2021	12,751,066	4,163,608,853	4,176,359,919
Adjustment		506,300,217	506,300,217
Additions	1,991,981	1,446,418,097	1,448,410,078
Balance at 30 June 2022	**14,743,047**	**6,116,327,167**	**6,131,070,214**
Net carrying value	**83,227,443**	**4,242,842,485**	**4,326,069,928**

(44) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS – (Continued)

b.Finance Lease Obligation

	Land	Building	Total
Cost			
Balance at 1 July 2022	(19,549,089)	506,902,336	487,353,247
Adjustment		(278,608)	(278.608)
Addition		160,546,856	160,546,856
Payment	(510,674)	(174,955,157)	(175,465,831)
Balance at 30 June 2023	**(20,059,763)**	**492,215,427**	**472,155,664**
Interest expense			
Balance at 1 July 2022	24,060,234	52,763,784	76,824,018
Adjustment		(43,451)	(43,451)
Additions	385,194	24,372,958	24,758,152
Balance at 30 June 2023	**24,445,428**	**77,093,291**	**101,538,719**
Net carrying value	**4,385,665**	**569,308,718**	**573,694,383**

	Land	Building	Total
Cost			
Balance at 1 July 2021	(19,038,415)	341,620,676	322,582,261
Adjustment	20,036,068	30,388,588	50,424,657
Addition		276,228,751	276,228,751
Payment	(20,546,743)	(141,335,679)	(161,882,422)
Balance at 30 June 2022	**(19,549,089)**	**506,902,336**	**487,353,247**
Interest expense			
Balance at 1 July 2021	**23,673,151**	**45,670,623**	**69,343,774**
Adjustment		(13,720,903)	(13,720,903)
Additions	387,083	20,814,063	21,201,146
Balance at 30 June 2022	**24,060,234**	**52,763,784**	**76,824,018**
Net carrying value	**4,511,145**	**559,666,120**	**564,177,265**

The Bank recognizes a lease liability at the present value of the lease payments that are not paid at that date. The Bank uses an incremental borrowing rate that is based on the weighted average cost of deposits across the years. The rates used to compute the present values of buildings lease liabilities as at 30 June 2023 was 4.73%. The rates used to compute the land lease liabilities as at 30 June 2023 was 9.00%.

The Bank leases buildings for its office space and branches. The building leases typically run for a period of between 2 and 10 years with majority of the contracts running for a period of 5 and 6 years. Some leases include an option to renew the lease for an additional period at the end of the contract term. The renewal term and lease rentals cannot be reliably estimated before the end of a contract.

(44) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS - (Continued)

The Bank leases land for construction of its own office buildings. The land leases typically run for a period of between 40 years and 99 years with majority of the contracts running for a period of 50 and 60 years. These leases include an option to renew the lease.

(45) CUSTOMERS' DEPOSITS

Customers´ deposits as of the reporting dates are as follows:

Payable on demand	**30 June 2023**	**30 June 2022**
Local and central government	128,725,252,012	100,621,747,883
Private sector and retail customers	127,434,919,850	112,798,617,662
Public enterprises and agencies	114,646,379,406	116,904,607,153
	370,806,551,269	**330,324,972,699**

Savings deposits	**30 June 2023**	**30 June 2022**
Private sector and retail customers	555,853,936,153	460,145,774,279
Local and central government	861,370,262	226,083,204
Public enterprises and agencies	25,535,771,299	17,159,572,256
	582,251,077,714	**477,531,429,739**

Term deposits	**30 June 2023**	**30 June 2022**
Public enterprises and agencies	5,637,539,390	3,083,356,662
Private sector and retail customers	2,438,255,404	2,781,658,727
Local and central government		6,000,000,000
Accrued interest on deposits	165,342,939	161,749,709
	8,241,137,734	**12,026,765,097**
CBE NOOR	90,430,887,055	69,558,804,564
All sectors	**1,051,729,653,771**	**889,441,972,100**

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on savings deposits as at 30 June 2023 was 7% (2022: 7%). The weighted average effective interest rate on term deposits as at 30 June 2023 was 7.2% (2022: 7.2%).

Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2023 were 0% and 7% respectively (2022: 0% and 7% respectively). CBE NOOR represents deposits that are non-interest bearing.

(46) PROVISIONS

	Bonuses	Cash Prize Award	Legal	Unutilized O/D, LC and Guarantee	Total
Balances at 30 June 2021	**1,141,551,353**	**122,891,273**	**133,347,878**	**122,103,206**	**1,519,893,711**
Increases (decrease) recorded in income	2,048,712,154	211,987,449	95,139,565	9,498,974	2,365,338,141
Provision used during the year	(1,141,551,353	(122,891,273)	(1,380,500)	29,079,460	(1,236,743,667)
Balances at 30 June 2022	**2,048,712,154**	**211,987,449**	**227,106,942**	**160,681,640**	**2,648,488,185**
Increases (decrease) recorded in income	1,896,746,412	264,683,735	(67,187,510)	(9,809,846)	2,084,432,791
Provision used during the year	(1,974,559,994)	(211, 987,449)	(23,399,861)		(2,209,947,304)
Balances at 30 June 2023	**1,970,898,572**	**264,683,735**	**136,519,571**	**150,871,794**	**2,522,973,672**

Bonus represent short-term benefits arising from past services provided by clerical and non clerical employees of the bank and are expected to pay within the next 12 months.

Legal provisions represent various claims that are pending outcome at the courts. These amounts are estimates of the likely legal claims that may not be ruled in the Bank's favor.

(47) EMPLOYEE BENEFITS

i. Movements in the Present Value of Defined Benefit Obligations (DBO)

	2022/23	2021/22
DBO at 01 July	9,527,921,468	6,420,887,753
Current service costs	1,163,218,966	916,289,576
Interest cost	1,426,329,843	860,398,958
Actuarial losses (gains) recognized in profit & loss	495,822,793	1,103,497,445
Payments for the year	(635,106,181)	(434,033,230)
Actuarial losses (gains) recognized in other comprehensive income	172,626,713	660,880,966
DBO at 30 June	**12,150,813,602**	**9,527,921,468**

This defined benefit plan expose the Bank to actuarial risks, such as longevity risk, currency risk, interest risk and market risk.

(47) EMPLOYEE BENEFITS - (Continued)

ii. Actuarial Losses Recognized in other Comprehensive Income

	30 June 2023	30 June 2022
Cumulative amount at 1 July	(1,757,463,449)	(1,417,707,162)
Recognized during the year	(120,838,699)	(339,756,286)
Deferred income taxes		
Actuarial gains, net of taxes at 30 June	(1,878,302,148)	(1,757,463,449)

iii. Actuarial Assumptions

The principal actuarial assumptions at the reporting date are detailed below:

	30 June 2023	30 June 2022
Discount rate	14.97%	13.40%
Salary increase rate	16.75%	16.00%
Gold increase rate	18.00%	16.00%
Long term medical inflation rate	13.75%	13.00%
Long term inflation rate	12.75%	12.30%

The assumed discount rates are derived from rates available on government bonds for which the timing and amounts of payments match the timing and the amounts of our projected pension payments.

iv. Sensitivity Analysis

Reasonably possible changes at the reporting date, in any of the actuarial assumptions and assuming that all the other variables remain constant, would have affected the defined benefit obligations as of 30 June 2022 by the amounts shown below:

	2023		2022	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(529,423,655)	624,662,413	(1,076,643,355)	1,346,427,614
Salary increase rate (1.00% variance)	801,237,145	(668,045,722)	995,999,131	(830,393,372)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(48) OTHER LIABILITIES

Other Liabilities		30 June 2023	30 June 2022
National Bank of Ethiopia	ETB	104,574,708,536	129,991,557,352
Margin accounts and deposits for guarantees		24,501,317,198	26,961,045,118
Payable to other banks		3,982,342,305	4,717,656,889
CPO's, telegraphic transfers and money transfers		5,472,976,748	3,290,292,326
Blocked accounts		735,275,413	600,615,470
Other taxes		1,002,262,170	744,468,612
Unearned income		3,152,979,826	1,605,870,711
Pension contributions		171,892,358	120,336,751
Miscellaneous		9,747,958,480	5,628,114,800
Total		**153,341,713,033**	**173,659,958,030**

Unearned income relates to Bank Guarantee commissions while National Bank of Ethiopia relates to a certificate of deposit.

Dividends

Future dividends payable: 75% of CBE's profit is prorated to dividends to the government and booked as an accumulated profit/loss in the Bank's books.

- During 2022, 75% of net profit not yet distributed was **ETB 12,378,732,197**
- During 2023, 75% of net profit not yet distributed was **ETB13,088,047,869**

(49) INCOME TAXES

In Ethiopia the rate of business income tax applicable to a business is 30%. In accordance to the tax proclamation, the tax payer is allowed a number of deductible expenditures in determining the taxable revenue for a tax year.

a) Income Tax Expense

	30 June 2023	30 June 2022
Current tax payable	6,217,082,758	7,126,814,110
Deferred tax expense	(1,720,581,979)	(2,135,341,297)
Related tax –OCI	5,337,094	161,406,173
	4,501,837,873	**5,152,878,985**

b) Reconciliation of Effective Tax Rate

	30 June 2023	30 June 2022
Profit before tax	21,952,568,366	21,657,855,249
Blended statutory tax rate*	30%	30%
"Expected" "tax expense	6,585,770,510	6,497,356,575
Non-deductible expenses	4,704,995,357	9,649,805,496
Allowed expenses	(2,494,672,483)	(6,601,670,121)
Tax-exempt income	(2,579,010,627)	(2,418,677,840)
Income tax payable	**6,217,082,758**	**7,126,814,110**

For the year ended 30 June 2023 the Bank had an effective income tax rate of 28.32% (2022:32.91%).

(49) INCOME TAXES - (Continued)

(b) Reconciliation of Effective Tax Rate - (Continued)

	30 June 2023	30 June 2022
Profit before tax	21,952,568,366	21,657,855,249
Statutory tax rate	30%	30%
Expected tax based on 30% computation	**6,585,770,510**	**6,497,356,575**
Non-deductible expenses		
Impairment losses	2,438,663,681	8,488,826,226
Depreciation & amortisation	509,524,901	50,902,446
Staff benefit and bonus	1,009,022,788	1,044,650,769
Entertainment	6,189,757	7,108,150
Donations	472,629,010	2,634,672
Other non-deductible expenses	268,965,220	55,683,235
Total non-deductible expenses	**4,704,995,357**	**9,649,805,498**
Allowed expenses		
Depreciation and amortisation	(517,051,362)	(345,042,246)
Employee benefits	(83,467,300)	(130,209,969)
Impairment losses	(1,894,153,821)	(6,126,417,906)
Total allowed expenses	**(2,494,672,483)**	**(6,601,670,121)**
Tax - exempt income		
Interest income taxed at source	(2,249,525,787)	(2,162,672,159.00)
Dividend	(3,520,725)	(3,619,697.00)
Equity investments	(184,537,596)	(139,389,526.00)
Impairment loss	(117,491,536)	
Other tax exempt income	(23,934,982)	(112,996,459.00)
Total tax exempt income	**(2,579,010,627)**	**(2,418,677,841)**
Current tax liability at 30%	**6,217,082,758**	**7,126,814,110**

(c) Current Income Tax Liablity

	30 June 2023	30 June 2022
Income tax expense	6,217,082,758	7,126,814,110
Withholding tax	(294,866)	(278,424)
Rental income tax	(1,707,520)	(4,777,922)
Withholding tax receivable	(76,847)	(15,194,498)
Payment during the year	**6,215,003,526**	**7,106,563,266**

(49) INCOME TAXES - (Continued)

(d) Income Tax Recognized Directly in Other Comprehensive Income

	30 June 2023		
	Income Tax	Before Taxes	Net of Taxes
Remeasurement of defined benefit liability	51,788,014	(172,626,713)	(120,838,699)
Unrealized (loss) gain arising from measurement at fair value	(46,450,920)	154,836,399	108,385,479

	30 June 2022		
	IncomeTax	Before Taxes	Net of Taxes
Remeasurement of defined benefit liability	198,264,290	(660,880,966)	(462,616,676)
Unrealized (loss) gain arising from measurement at fair value	(36,858,117)	122,860,391	86,002,274

(e) Recognized Deferred Tax Assets and Liabilities

At 30 June 2023 and 2022, the tax effects of temporary differences that give rise to significant portions of the deferred income tax assets are Loans & Advances, Receivables, PPE, Intangible & Other Assets, Provisions and Employees' Benefit.

Balance as of June 2022	**6,210,419,292**
Recognized in profit & loss	1,715,244,885
Recognized in other comprehensive income	5,337,094
Balance as of June 2023	**7,931,001,271**

Balance as of June 2021	**4,075,077,995**
Recognized in profit & loss	1,973,935,124
Recognized in other comprehensive income	161,406,173
Balance as of June 2022	**6,210,419,292**

(50) EQUITY

a) Capital

The Bank is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2022, the Bank's capital was ETB 40,000,000,000 (2021: ETB 40,000,000,000).

b) Legal Reserve Account

The legal reserve in accordance with the Directive No SBB/4/95 issued by the National Bank of Ethiopia, every bank shall transfer annually 25% of its annual net profit as a legal reserve until such account equals its capital.

c) Statutory Reserve

This account represents the excess amount in allowance for uncollectable suspense accounts as per the National Bank of Ethiopia's requirement compared to the IFRS requirement.

d) CBE NOOR Reserve

The CBE NOOR Reserve relates to the Mudarabah contract. The CBE NOOR reserve is a sum of profit equalization reserve (PER) and investment risk reserve (IRR). The profit equalization reserve (PER) is the amount appropriated by the Bank out of the Mudarabah income before allocating the mudarib share in order to maintain a certain level of return on investment for the Investment Account Holder. On the other hand, the investment risk reserve (IRR) is the amount appropriated by the Bank out of the income of Investment account holder (IAH), after allocating the mudarib share, in order to cater against future losses for the Investment Account Holder.

e) Accumulated Profit/Loss

The profits or losses that the bank has earned to date, accumulated profit is 75% of net profitnot yet paid to the goverment.

f) Fair Value Reserve, Remeasurement of Defined Benefit Liabilities and Foreign Currency Translation Reserve

Represent the accumulated amount, net of deferred income taxes arising from changes in actuarial assumptions used in the calculation of labor obligations, the effect of the change in foreign currency translation reserve and the change in fair value of equity investments.

(51) COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Bank conducts business involving guarantees and letter of credit. These facilities are offset by corresponding obligations of third parties. At the year end the contingencies were as follows:

Commitments	30 June 2023	30 June 2022
Loans committed but not disbursed at year end	34,727,836,042	21,996,731,823
Bond commitment	3,721,200,108	7,058,069,387
Construction commitment	6,306,129,344	6,522,928,800
	44,755,165,494	**35,577,730,011**

Contingent liabilities	30 June 2023	30 June 2022
Letter of credit	210,932,254,909	222,683,990,950
Guarantees	6,309,493,394	15,769,954,194
	217,241,748,303	**238,453,945,143**

(51) COMMITMENTS AND CONTINGENT LIABILITIES - (Continued)

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 customers.

Guarantees are generally written by a bank to support the performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

(52) RELATED PARTIES

a) Remuneration of Key Management Personnel

Key management members received the following remuneration during 2023/022.

	30 June 2023	30 June 2022
Salaries	28,912,781	17,021,860
Allowance and other short-term benefits	20,549,109	17,596,827
Board fee	3,549,196	1,419,503
Post-employment benefits	2,897,150	1,872,405
	55,908,236	**37,910,594**

Compensation for the Bank's key management personnel includes basic salaries, housing allowances, fuel allowances, hardship allowances, representation amounts, and bonuses.

Post-employment benefits are key management member benefits that are payable after the completion of employment. There were no other long-term benefits provided to members of the Board of Directors or the Executive Management of the Bank.

b) Transactions with Key Management Personnel

Key management members entered into the following transactions:

	30 June 2023	30 June 2022
Loans granted	55,505,777	31,575,391

The loans issued to Excutive Management members granted are secured against the property being acquired by the borrower. At the end of each reporting period the Bank performs an impairment assessment on the outstanding balances and provides an allowance for impairment losses at the reporting date. No impairment losses have been recorded against loan balances with key management personnel as at 30 June 2023 (2022: Nil).

(53) CBE NOOR

CBE NOOR
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD COVERING 01-JULY-2022 UP TO 30-JUNE-2023
(IN ETHIOPIAN BIRR)

	30 June 2023	30 June 2022
Revenue		
Income from CBE NOOR financing	5,292,368,742	3,672,882,839
Profit share from transfer pricing	4,165,748,029	3,071,376,886
Markup on Murabaha financing	1,126,620,713	601,505,953
Commission and charges	558,360,309	26,305,439
Other income	101,621,486	53,421,718
Total revenue	**5,952,350,537**	**3,752,609,997**
Expense		
Profit paid to CBE NOOR deposit	176,373,159	50,155,785
Net loss (gain) on foreign exchange	(245,621,026)	179,568
Employees salaries & benefits	2,756,075,722	1,238,237,540
General expenses	1,459,351,897	806,944,789
Impairment on financial assets	95,238,385	-
Total expense	**4,241,418,137**	**2,095,517,681**
Profit (Loss) before taxation	**1,710,932,400**	**1,657,092,315**

(53) CBE NOOR - (Continued)

CBE NOOR
STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (IN ETHIOPIAN BIRR)

	Note	30 June 2023	30 June 2022
Assets			
Cash and cash equivalent	(a)	13,622,361,949	10,490,562,026
CBE NOOR financing, net	(b)	17,780,902,344	7,666,748,145
Receivables	(c)	62,937,621,580	51,331,960,963
Other assets		33,509,214	1,811,686,346
Total assets		**94,374,395,087**	**71,300,957,479**
Liabilities			
Conventional deposits		6,885,278	795,562
CBE NOOR deposits	(d)	90,516,914,048	69,558,563,412
Other liabilities		2,115,288,290	65,182,894
Total liabilities		**92,639,087,616**	**69,624,541,868**
Equity			
Profit equalization reserve (PER)	(e)	22,579,948	18,773,492
Investment risk reserve (IRR)	(f)	1,795,122	549,804
Profit/loss summary		1,710,932,400	1,657,092,315
Total capital		**1,735,307,471**	**1,676,415,611**
Total liability and equity		**94,374,395,087**	**71,300,957,479**

(A) Cash and Cash Equivalents

	30-June-2023	30-June-2022
Cash on hand	1,714,706,515	814,875,618
Payment & settlement account NBE	5,577,493,340	2,719,840,406
Statutory reserve account	6,330,162,094	6,955,846,001
Cash and cash equivalents	**13,622,361,949**	**10,490,562,026**

(b) CBE NOOR Financing

	30 June 2023	30 June 2022
Murabaha – corporate	19,625,868,709	8,726,099,895
IFB export pre-shipment financing	1,312,716,636	596,782,357
Gross financing	20,938,585,315	9,322,882,252
Less: CBE NOOR unearned Income	(2,912,882,358)	(1,506,571,849)
Allowance for impairment losses	(244,800,643)	(149,562,258)
Net financing	**17,780,902,344**	**7,666,748,145**

(53) CBE NOOR - (Continued)

As lending money with charging interest is prohibited in Islam and Islamic banks use trade contracts, the item 'loans' has been presented as 'financing' in the statement of financial position.

Murabah financing (Deferred sales) refers to a sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser. Usually, the sale price is payable by the purchaser on deferred terms. An asset to be traded in a Murabahah contract shall be one that is recognized by the Sharia's as valuable, identifi¬able and deliverable and that the asset is already in existence and owned by the seller.

IFB export pre-shipment facility: a loan is provided for exporter similar with pre-shipment finance, a principal amount which is lent and to be repaid in the future at the same amount without any increment obliged on it. As per approved by SAC (Sharia Advisory Committee) to encourage the exporter.

Unearned CBE NOOR income: is recognized through the proportional allocation of profit to the future financial periods until the maturity date of the contract, regardless of whether the payment is settled or not.

(C) Receivables

	30 June 2023	30 June 2022
Receivable from Treasury Department	62,800,806,857	51,255,822,180
Foreign receivable	377,383	562,041
Employees salary advance	120,287,386	65,917,742
Other receivable	16,149,954	9,659,000
	62,937,621,580	**51,331,960,963**

Receivable from Treasury Department: fund kept at the treasury department for the purpose of purchase of foreign currency and other trade service activities so that IFB earns profit and commissions emanating from foreign currency holdings based on the share of funds availed for that activity. Income from such activity is reported as Profit share from transfer pricing.

(d) CBE NOOR Deposit

	30 June 2023	30 June 2022
Wadiah	74,855,393,150	62,202,792,412
Amanah	9,124,208,006	6,415,355,000
Mudarabah	6,537,312,892	940,416,000
	90,516,914,048	**69,558,563,412**

Waddia: a form of contract whereby the Bank acts as safe keeper and trustee of depositor's funds. The Bank guarantees to return the entire deposit, or any part of it, on the depositor's demand.

Amanaha: customers agree to provide funds in the form of a deposit to the Bank with the promise by the latter to pay on demand any amounts outstanding in the Amanah account in full as and when required by the depositor.

Mudarabah saving and fixed time deposit account: an investment account allows customers, depending on their risk appetite, to make placement in investment accounts that potentially offer higher rates of return but are not the principal guaranteed.

(53) CBE NOOR - (Continued)

(e) Profit Equalization Reserve (PER)

	30 June 2023	30 June 2022
Balance at 1 July	18,773,492	6,301,869
Additional PER for the period	3,806,457	12,471,622
Balance at 30 June	**22,579,948**	**18,773,492**

Profit equalization reserve: is a reserve periodically deducted and held by the bank from Net Income of the pool (NIP) for smoothening profit payouts of mudarabah investment deposit customers when it is below market rate/customer expectations.

(f) Investment Risk Reserve (IRR)

	30 June 2023	30 June 2022
Balance at 1 July	549,804	172,984
Additional IRR during the period	**1,245,318**	**376,820**
Balance at 30 June	**1,795,122**	**549,804**

Investment risk reserve: Is a reserve periodically deducted and held from mudarabah investment depositor's share to offset losses from possible write-offs and investment losses.

(54) EVENTS OCCURRING DURING THE REPORTING PERIOD

Allowance for losses has been made in the financial statements for the Bank's branches that were found in areas with political instability and civil war during the reporting period. In Amhara, Afar, and Tigray regions, 272 branches were closed during political instability. After the peace agreement, 262 branches resumed operation, but 1 branch in Afar and 9 branches in the Tigray region have not yet resumed operation.

(55) EVENTS AFTER THE REPORTING PERIOD

There are no material facts or circumstances that have occurred between the accounting date and the date of this financial statement that require disclosure in or adjustment to the financial statement.

(56) DATE OF AUTHORIZATION

These financial statementsare authorized for issue by the Board of Directors of the Bank on December 27, 2023.

CONTENTS OF THE ANNEX

Contents **Pages**

የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

ጋምቢያ መንገድ፡- ፖ.ሣ.ቁ፡- 255 አዲስ አበባ፡ ኢትዮጵያ
ስልክ፡- 251-11-551-50-04
የደንበኞች ግንኙነት ማእከል፡- 951
የስዊፍት አድራሻ፡- CBETETAA
cbecommun@combanketh.com
Cbenoor-ifb@cbe.com.et
www.combanketh.et
www.facebook.com/combanketh
https//twitter.com/combankethiopia
https://t.me/combankethofficial
www.linkedin.com/company/commercialbankofethiopia
www.youtube.com/commercialbankofethiopia