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**AUDIT SERVICES
CORPORATION**

NATIONAL BANK OF ETHIOPIA
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
30 JUNE 2021

National Bank of Ethiopia
Financial Statements
For the year ended 30 June 2021

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**National Bank of Ethiopia
Annual Financial Statements
For the year ended 30 June 2021**

Statement of Director's Responsibility

The Directors are responsible for the preparation and fair presentation of the financial statements of National Bank of Ethiopia ("The Bank"), comprising the statement of financial position as at 30 June 2021, statements of profit or loss and other comprehensive income, statement of changes in equity and statement 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.

To enable the Directors, 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 their best 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 Bank to the date of signing of these financial statements and its prospects based on prepared budgets and are satisfied that the Bank is a going concern and, therefore, have adopted the going concern assumption in the preparation of these financial statements.

Approval of the annual financial statements

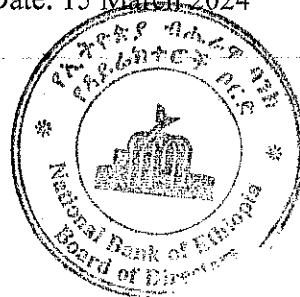
The financial statements on pages 5 to 106 were approved by the Governor on behalf of the Board of Directors on 15 March 2024.

Signed on behalf of the Directors

H.E. Mamo Esmelealem Mihretu.....

Date: 15 March 2024

Mamo Esmelealem Mihretu
Governor





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**Office of the Federal Auditor General
Audit Service Corporation**

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Bank of Ethiopia (the Bank) which comprise the statement of financial position as at 30 June 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 30 June 2021, its financial performances and its 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 Bank 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 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.

Material Uncertainty Related to Going Concern

The accompanying financial statements for the year ended 30 June 2021 have been prepared assuming that the Bank will continue as a going concern. As discussed in Note 2(a) to the financial statements, the Bank has suffered losses from operation and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2(a) to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue and expense

There are risks that interest income and expenses may not be properly calculated and recorded. We compared the current year's income and expenditure with the prior year to analyse the variation. We enquired and documented the reasons for variations. We selected samples of recorded interest income and expense and checked their computation and examined supporting documentation to verify the correctness of the amounts recorded. Based on our assessment we found no concerns regarding revenue and expense recognition.

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

Management is 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, the management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.
- Conclude on the appropriateness of the Board'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 Bank'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 Bank 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 Woizero Azeb Tekleselassie.

AUSA Services Corporation

15 March 2024

National Bank of Ethiopia
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2021
(In Ethiopian Birr)

| | | <u>30 June 2021</u> | <u>30 June 2020</u> |
|---|-------------|------------------------|-----------------------|
| | Note | | |
| Interest income | 4 | 15,192,248,676 | 11,231,830,101 |
| Interest expense | 4 | (7,112,968,066) | (5,140,190,224) |
| Net interest income | | 8,079,280,610 | 6,091,639,877 |
| Fee and commissions income | 5 | 5,275,779,907 | 4,409,152,231 |
| Revenue from sale of gold | 6 | 23,521,232,945 | 1,042,029,013 |
| Other income | 7 | 387,782,238 | 451,864,278 |
| Net non-interest income | | 29,184,795,090 | 5,903,045,522 |
| Net operating income | | 37,264,075,700 | 11,994,685,399 |
| Currency costs | 8 (a) | (3,484,411,693) | (292,769,194) |
| General and administration costs | 8 (b) | (8,134,257,531) | (2,212,269,456) |
| Salaries and related benefits | 8 (c) | (351,934,756) | (260,472,516) |
| Gold purchase, refinery, and other related costs | 8 (d) | (25,475,596,714) | (821,703,463) |
| Impairment losses on financial assets | 8(e),9,15 | (1,259,549,635) | (563,991,800) |
| Operating surplus/Loss before (un) realised gains / (losses) | | (1,441,674,629) | 7,843,478,970 |
| Other comprehensive income: | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Remeasurement of defined benefit obligation | 24 (b) | (2,807,931) | (78,407,024) |
| Fair value gains/(losses) on monetary gold | 11 (a) | 2,480,191 | (855,887) |
| Fair value gains / (losses) on financial assets | 10 & 28 | (24,812,828) | 1,366,957,792 |
| Other comprehensive income | | (25,140,568) | 1,287,694,881 |
| Total comprehensive income | | (1,466,815,197) | 9,131,173,851 |

The notes on pages 9 to 106 are an integral part of these financial statements.

National Bank of Ethiopia
Statement of Financial Position
As at 30 June 2021
(In Ethiopian Birr)

| Assets | Note | 30 June 2021 | 30 June 2020 |
|---|-----------|------------------------|------------------------|
| Balances due from foreign entities - Commercial banks | 9 (c) | 28,144,049,258 | 20,653,052,148 |
| Balances due from foreign entities – Central banks | 9 (d) | 94,285,262,858 | 81,958,441,772 |
| Cash - foreign currencies | 9 (e) | 1,527,579,239 | 4,381,892,903 |
| Funds held with IMF | 9 (f) | 527,514,382 | 567,343,715 |
| Monetary gold | 11 (a) | - | 495,951,038 |
| Gold commodity | 11 (b) | 3,631,590,539 | 3,280,634,229 |
| Loans to government banks | 9 (b) | 170,649,011,900 | 169,258,817,952 |
| Loans to private commercial banks | 9 (h) | 1,695,719,093 | 34,413,090 |
| Investment securities | 10 | 24,195,070,571 | 14,335,890,889 |
| Property and equipment | 13 | 1,322,476,445 | 1,375,915,699 |
| Other assets | 15 | 17,680,945,135 | 6,567,645,243 |
| Intangible asset | 14 | 5,109,046 | 11,009,804 |
| Due from Government of Ethiopia | 9 (a) | 294,146,968,065 | 243,185,737,950 |
| Right of use asset | 16 | 1,993,206 | 2,146,530 |
| Total assets | | 637,813,289,737 | 546,108,892,962 |
| Liabilities | | | |
| Currency in circulation | 20 | 163,709,691,732 | 140,521,127,309 |
| Deposits due to local financial institutions, government, and government institutions | 17 | 317,517,568,532 | 267,432,190,177 |
| Funds due to international financial institutions | 18 | 57,665,508,321 | 44,305,871,855 |
| Due to other institutions | 19 | 88,038,683,383 | 70,480,701,572 |
| Due to the Ministry of Finance | 23 | 5,374,906,270 | 15,695,777,487 |
| Deferred revenue | 22 (d) | 1,135,555 | 1,324,645 |
| Lease liability | 16 | 2,235,951 | 2,348,737 |
| Provisions | 21 | 17,148,151 | 30,453,561 |
| Employee benefits | 24 | 174,632,863 | 154,882,403 |
| Other liabilities | 25 | 1,947,772,604 | 2,653,393,644 |
| Total Liabilities | | 634,449,283,362 | 541,278,071,390 |
| Equity | | | |
| Capital | 26 (a) | 500,000,000 | 500,000,000 |
| General reserve | 26 (b) | (941,674,629) | 500,000,000 |
| Retained earnings | 26 (b) | - | - |
| Fair value reserve | 26 (e) | 248,031,586 | 270,364,223 |
| Defined benefit reserve | 24 /26(f) | 52,076,914 | 54,884,845 |
| International reserve valuation | 26 (c) | 3,849,198,654 | 3,849,198,654 |
| Other reserve | 26 (g) | (343,626,150) | (343,626,150) |
| Total equity | | 3,364,006,375 | 4,830,821,572 |
| Total liabilities and equity | | 637,813,289,737 | 546,108,892,962 |

The notes on pages 9 to 106 are an integral part of these financial statements.

National Bank of Ethiopia
Statement of Changes in Equity
For the year ended 30 June 2021
(In Ethiopian Birr)

| Note | Capital | General reserve | Other Reserve | International reserve valuation | Retained earnings | Defined benefit reserve | Fair value reserve | Total Equity |
|--|--------------------|----------------------|----------------------|---------------------------------|------------------------|-------------------------|----------------------|------------------------|
| Balance as of 1 July 2019 | 500,000,000 | 500,000,000 | (343,626,150) | 3,849,198,654 | - | 133,291,869 | (1,095,737,683) | 3,543,126,690 |
| Total comprehensive income: | | | | | | | | |
| Profit for the year | 26 (d) | - | - | - | 7,843,478,970 | - | - | 7,843,478,970 |
| Other comprehensive income | 26 (f) | - | - | - | - | (78,407,024) | 1,366,101,906 | 1,287,694,882 |
| Total comprehensive income | | | | | 7,843,478,970 | (78,407,024) | 1,366,101,906 | 9,131,173,852 |
| Transactions with owners of the Bank: | | | | | | | | |
| Transfer to / (from) General reserve | 26 (b) | - | - | - | - | - | - | - |
| Transfer to MOF | 23/26 (d) | - | - | - | (7,843,478,970) | - | - | (7,843,478,970) |
| Balance as at 30 June 2020 | 500,000,000 | 500,000,000 | (343,626,150) | 3,849,198,654 | - | 54,884,845 | 270,364,223 | 4,830,821,572 |
| Total comprehensive income: | | | | | | | | |
| Profit for the year | 26 (d) | - | - | - | (1,441,674,629) | - | - | (1,441,674,629) |
| Other comprehensive income | 26 (f) | - | - | - | - | (2,807,931) | (22,332,637) | (25,140,568) |
| Total comprehensive income | | | | | (1,441,674,629) | (2,807,931) | (22,332,637) | (1,466,815,197) |
| Transactions with owners of the Bank: | | | | | | | | |
| Transfer to / (from) Other reserve | 26 (b) | (1,441,674,629) | - | - | 1,441,674,629 | - | - | - |
| Transfer to/(from) MOF | 23/26 (d) | - | - | - | - | - | - | - |
| Balance as of 30 June 2021 | 500,000,000 | (941,674,629) | (343,626,150) | 3,849,198,654 | - | 52,076,914 | 248,031,586 | 3,364,006,375 |

The notes on pages 9 to 106 are an integral part of these financial statements.

National Bank of Ethiopia
Statement of Cash Flows
For the year ended 30 June 2021
(In Ethiopian Birr)

| Cash flows from operating activities: | Note | 30 June 2021 | 30 June 2020* Re-arranged |
|---|-------------|-------------------------|------------------------------|
| Operating surplus for the year | | (1,441,674,629) | 7,843,478,970 |
| Impairment of loans and advances | 8(e), 9, 15 | 1,259,549,635 | 563,991,800 |
| Depreciation and amortization | 13, 14 | 116,864,906 | 111,801,627 |
| Net interest income | 4 | (8,079,280,610) | (6,091,639,877) |
| Dividend income | 7 | (30,867,477) | (2,242,599) |
| Interest paid on lease obligation | 16 | 134,234 | 140,987 |
| Fair value gains on financial assets | | - | 1,308,456,128 |
| Loss/ (Gain) on disposal of property, plant, and equipment | 13 | 15,460 | (2,262,598) |
| | | (8,175,258,481) | 3,731,724,438 |
| Changes in working capital: | | | |
| Loans to government banks and commercial banks | 9 (b, c, h) | 828,979,555 | (71,799,943,263) |
| Other assets | 15 | (11,113,552,552) | 969,237,237 |
| Deposits due from foreign entities – central banks (IBRD investment) | 9(g) | (1,260,108,752) | (863,786,359) |
| Currency in circulation | 20 | 23,188,564,423 | 18,721,108,185 |
| Due to International financial institutions | 18 | 3,502,975,598 | 24,077,227,003 |
| Due to other institutions | 19 | 17,557,981,811 | 10,415,104,947 |
| Deposits due to local financial institutions, government, and government institutions | 17 | 50,075,002,056 | 78,479,828,739 |
| Monetary gold | 11(a) | 498,431,229 | (171,946,025) |
| Gold commodity | 11 (b) | (350,956,310) | (2,475,756,225) |
| Due from Government of Ethiopia | 9 (a) | (51,802,488,135) | (49,516,213,219) |
| Provisions | 21 | (13,305,410) | 16,577,169 |
| Deferred revenue | 22 (d) | (189,090) | 969,008 |
| Employee benefits | 24 | 16,942,529 | 5,520,768 |
| Other liabilities | 25 | (705,621,040) | 2,036,954,327 |
| Interest income received | | 10,889,904,792 | 8,156,538,866 |
| Interest expense paid | | (7,102,609,112) | (5,119,136,697) |
| Net cash provided by operating activities | | 26,034,693,111 | 16,664,008,899 |
| Cash flows from investing activities: | | | |
| Disposal of property, plant and equipment | | - | 3,073,823 |
| Dividends received | | 30,867,477 | 2,242,599 |
| Increase in investment securities | 10 | (27,314,300) | - |
| Acquisition of properties and equipment | 13 | (57,387,030) | (141,209,188) |
| Acquisition of intangibles | 14 | - | (4,034,351) |
| Net cash used in investing activities | | (53,833,853) | (139,927,117) |
| Cash flows from financing activities: | | | |
| Payments on finance lease obligations | 16 | (247,020) | (247,020) |
| Remittance of annual profits to the Ministry of Finance | 23 | (10,320,871,214) | (6,766,300,000) |
| Net cash from financing activities | | (10,321,118,234) | (6,766,547,020) |
| Increase (decrease) in cash and cash equivalents | | 15,659,741,024 | 9,757,534,762 |
| Cash and cash equivalents at beginning of period | 9 (g) | 102,455,721,073 | 92,698,186,311 |
| Cash and cash equivalents at end of period | 9 (g) | 118,115,462,097 | 102,455,721,073 |

Fair value related adjustments of investment securities and quota share of IMF are excluded from the cashflow statement (as per IAS-7 p.43). For detail refer note (no.10)

*In order to improve comparability some of the comparative balances have been re-arranged

The notes on pages 9 to 106 are an integral part of these financial statements.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

1. Reporting entity

National Bank of Ethiopia (“the Bank”) is the Central Bank of Ethiopia. It was established by Order No. 30/1963 as an autonomous institution. It is governed by the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008 and is wholly owned by the Government of the Federal Democratic Republic of Ethiopia.

Its principal place of business is Addis Ababa.

It operates as the Central Bank of Ethiopia and acts as the banker, fiscal agent and financing advisor of the Government of Ethiopia and is domiciled in Ethiopia.

2. Basis of preparation

(a) Going concern

The National Bank of Ethiopia recorded a net operating loss of Birr 1.4 billion, which resulted in a negative General Reserve balance of Birr 0.9 billion at the end of 30 June 2021. This was largely due to: (1) an impairment owing to a sovereign credit downgrade of government and government bank related securities plus loans and advances; and (2) a depreciation of the local currency which resulted in exchange losses.

The Board and Management of the Bank have assessed the implications arising out of the negative General Reserve position. In their view, the Bank will continue to operate on a going basis as a recapitalization plan, in coordination with the Ministry of Finance, is expected to be in place to improve NBE’s balance sheet and since more favourable macroeconomic conditions are envisaged in line with on-going and wide-ranging policy reforms. The Directors also view there to be minimal risk regarding the Bank’s ability to generate enough income to cover its monetary policy operations and other operational costs. Based on the above, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus, the Bank continues to adopt the going concern basis of accounting in preparing its annual financial statements.

(b) Statement of compliance

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

On 15 March 2024, the Governor authorized the issuance of the accompanying financial statements.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

2. Basis of preparation (Continued)

(c) Basis of accounting

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

1. Financial instruments measured at amortised cost and at fair value;
2. Monetary gold measured at fair value; and
3. Measurement of defined benefits obligations: key actuarial assumptions.

(d) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the “Functional currency”).

The financial statements are presented in Ethiopian Birr (ETB), which is the Bank’s functional currency, and all values are rounded to the nearest Birr, except when otherwise indicated.

(e) Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Judgments

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

Note 3 (b (ii)) - Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding;

Note 3 (b (viii)) - Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECL) and selection and approval of models used to measure ECL; and

Note 3 (e) - Leases; whether a contract contains a lease.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

2. Basis of preparation (Continued)

(e) Use of judgments and estimates (Continued)

Estimates on uncertainties and assumptions

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

Information on assumptions and uncertainty of estimates posing a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the year ending 30 June 2021 is included in the following notes as set out below:

Note 3 (b (i; ii)) – identification and measurement of financial instruments;
Note 3 (c) and (d) – useful lives and salvage value of tangible and intangible assets;
Note 3 (k) – measurement of employee benefits liability: key actuarial assumptions;
Note 3 (b) (viii) - impairment of financial instruments: key assumptions used in estimating recoverable cash flows; and
Note 3 (j) and (t) – recognition and measurement of provisions and contingencies.

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

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies

(a) Foreign currency transactions

Transactions in foreign currencies on a day to day basis are recorded at the respective buying and selling rate. The closing balances on these foreign currency accounts at the close of business are translated using the mid-exchange rate.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the mid-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 mid-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.

Foreign currency differences arising on translation are generally recognised in profit or loss.

(b) Financial instruments

(i) Recognition and initial measurement

The Bank initially recognizes cash, loans and advances, deposits, and debt securities on the date on which they are originated. All other financial instruments (including assets designated at fair value through profit or loss) are initially recognized on the trade date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

a. Financial assets:

On initial recognition, financial assets are classified into one of the following measurement categories:

- Amortised cost;
- 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

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Financial assets (continued)

Financial assets include both debt and equity instruments. Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its Business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the Business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms 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 not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank 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:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

(a.) Financial assets (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 Bank'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 Bank 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 Bank'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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Financial assets (continued):

Business model assessment (continued)

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets.

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.

Assessments whether contractual cash flows are 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.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Financial assets (continued):

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

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 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). 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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Financial assets (continued):

Debt instruments measured at FVOCI (Continued)

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The allowance for credit losses (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 Bank 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. The decision to designate relates to assets that otherwise meet requirements to be measured at amortised cost or as at FVOCI but are designated as at FVTPL to reduce account mismatch.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Financial assets (continued):

Debt instruments designated at FVTPL (Continued)

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).

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 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 Bank 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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

a. Financial assets (continued):

Reclassifications

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

b. Financial liabilities

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

The financial instruments at NBE have been classified into one of the following categories and their measurement criteria defined as follows based on their nature and business purpose:

| Financial assets | Measurement criteria |
|--|-----------------------------|
| Due from Government of Ethiopia (Note 9(a)) | Amortised cost |
| Loans to government banks (Note 9(b)) | Amortised cost |
| Due from foreign institutions – commercial banks (Note 9(c)) | Amortised cost |
| Due from foreign institutions – central banks (Note 9(d)) | Amortised cost |
| Cash - foreign currencies (Note 9(e)) | Amortised cost |
| Funds held with IMF (Note 9(f)) | Amortised cost |
| Loans to private commercial banks (Note 9(h)) | Amortised cost |
| Loans to employees (Note 15(a)) | Amortised cost |
| Investment securities (Note 10) | Fair value through OCI |

| Financial liabilities | Measurement criteria |
|---|-----------------------------|
| Deposits from banks and government (Note 17) | Amortised cost |
| Due to international financial institutions (Note 18) | Amortised cost |
| Due to other institutions (Note 19) | Amortised cost |
| Currency in circulation (Note 20) | Fair value |

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition

Financial assets

The Bank 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 Bank 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.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized 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 Bank is recognized as a separate asset or liability.

In transactions in which the Bank 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 Bank 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 Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iv) Modifications of financial assets and financial liabilities

Financial assets:

If the terms of a financial asset are modified, the Bank 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 Bank 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 Bank has a legally enforceable right to offset the amounts and intends 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 Bank'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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, 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.

If there is no quoted price in an active market, then the Bank 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 to measure the Bank'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 statements purposes only.

(viii) Impairment of financial assets

The Bank 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 Bank measures loss allowances at an amount equal to lifetime 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.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(viii) Impairment of financial assets (continued)

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Bank 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 ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of Expected Credit Losses (ECL)

Expected Credit Losses (ECL) is 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 Bank expects to receive);
- *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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(viii) Impairment of financial assets (continued)

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 and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, 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 Bank 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 Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of 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 making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(viii) Impairment of financial assets (continued)

Credit-impaired financial assets (continued)

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

There are also international support mechanisms in place to provide the necessary support to NBE 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 loss allowance in the statement of financial position

Loss allowances for Expected Credit Losses (ECL) are presented in the statement of financial position as follows:

- *financial assets measured 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 Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank 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 Bank 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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(c) Property and equipment

(i) Recognition and measurement

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

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 and equipment are determined by comparing the proceeds from disposal with the carrying amount of property 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 Bank and the cost of the item can be measured reliably. 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. Land is not depreciated.

The estimate useful lives and residual values of significant items of property and equipment are as follows:

| Asset classification | Useful life | Depreciation rate | Residual value |
|-----------------------------|--------------------|--------------------------|-----------------------|
| Buildings | 20 years | 5% | 25% |
| Furniture and fittings | 5 years | 20% | 1% |
| Office and other equipment | 5 years | 20% | 1% |
| Motor vehicles | 5 years | 20% | 25% |

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

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(d) Intangible assets

(i) Software

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. 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 5 years this is amortised at a rate of 20% less the residual value. The estimated residual value of software for the current period and comparative periods is nil. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Leases

(i) Bank acting as a lessee

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in a rate.

After the commencement date, the Bank 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 Bank measures it by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(e) Leases (continued)

(i) Bank acting as a lessee (continued)

made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease of 12 months or less and leases of low-value assets defined as those below ETB 135,000 (equivalent to USD 5,000 at an exchange rate of USD1 to ETB27, the prevailing mid rate as at 2016). The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Bank acting as a lessor – Finance leases

Where the Bank is the lessor, it determines at lease inception whether each of its leases is an operating or finance lease.

Finance lease

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 receivables.

At the commencement date, the Bank recognizes assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. After the initial measurement, the Bank 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 all of the risks and rewards incidental to the ownership of the asset to the lease is classified as an operating lease.

The Bank recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Bank 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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(f) Taxes

The Bank is exempt from income tax as defined under article 23 of Proclamation No. 591/2008.

(g) Accounting for currency expenses

The cost relating to printing of bank notes and minting of coins are charged to profit or loss in the period in which the notes and coins are received by the bank from the printing company.

(h) Currency in circulation

Notes and coins in circulation are recorded at fair value. The fair value of notes and coins approximates their carrying value and represents the nominal value of all bank notes and coins held by the public and commercial banks.

(i) Inventories

The bank holds gold, office and other consumables as inventory. Included in the office and other consumables are spare parts, stationery items, fuel and lubricants, tyres and inner tubes and cleaning and sanitary items. Refer to Note 15(c) for the qualitative disclosures.

Gold inventory is initially measured at the lower of cost and net realisable value while office and other consumables are measured at cost.

Cost of inventories comprises of purchase price (after deducting trade discounts), and related tax and duty for imports, any costs directly attributable to the acquisition of the stock item such as transport costs, labour costs, unpacking, temporary warehousing fees and inspection costs and destination charges in case of imports.

Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for costs of realisation. The cost of inventories to the Bank is determined on a First in First Out (FIFO) basis.

(j) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably as at the Statement of Financial Position date, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses. Provisions at NBE are recognized in respect of legal cases and bonus payments to employees as well as to board members who are not employees of the bank.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(k) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank accounts not only for its legal obligation but also for any constructive obligation that arise from the Bank's customary practices. A customary practice in place gives rise to a constructive obligation where the Bank has no realistic alternatives but to pay employee benefits.

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets is deducted.

The discount rate is the yield at the reporting date on governmental bonds that have maturity dates approximating the terms of the Bank'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. This method takes into account various parameters, specific to the Ethiopia market such as demographic assumptions, the probability that employees will leave before retirement age, salary inflation, a discount rate, general inflation rate as well as any other relevant financial assumptions. The net liability recognized with respect to post-employment benefit plans is the difference between the present value of the defined-benefit obligation and the fair value of any plan assets, if any.

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 during which the services are rendered. The annual expenses recognized in the profit or loss statement under "Salaries and employee benefits" with respect to defined-benefit plans includes the current service cost (the rights vested by each employee during the period in return for service rendered), the net interests linked to the effect of discounting the net defined-benefit liability, the past service cost arising from plan amendments or curtailments, and the effect of any plan settlements.

Remeasurements of the net defined-benefit liability are recognized in other comprehensive income in the period they arise and are never reclassified to profit or loss. These include: all actuarial gains and losses arising from defined benefit plans.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(k) Employee benefits (continued)

(ii) Short-term benefits

Short-term benefit obligations consist of salaries, bonuses, and any non-monetary benefits. They exclude the following benefits which are expected to be paid over periods exceeding 12 months: funeral expenses; medical expenses for pension employees; prize pay; severance pay and leave benefits. Short-term benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonuses if the Bank has a present legal or constructive obligation to pay this amount as a result of past services provided by the employees, and the obligation can be estimated reliably.

(iii) Termination benefits

Termination benefits are employee benefits payable in exchange for the termination of an employee's contract as a result of either a decision by the Bank to terminate a contract of employment before legal retirement age, or a decision by an employee to accept voluntary redundancy in exchange for these benefits. Some of the termination benefits at NBE include severance payments.

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(iv) Long-term benefits

These are benefits, other than short-term benefits, post-employment benefits and termination benefits. These benefits relate to compensation deferred for more than 12 months, which is accrued in the financial statements for the period in which it is earned.

The actuarial techniques used are similar to those used for defined benefit post-employment benefits except that the revaluation items are recognized in the profit or loss and not in equity.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(l) General reserve

The General reserve is defined in the NBE proclamation No. 591/2008. The balance of this reserve fund is dependent on the Capital amount. The limit of the General reserve should equal the Capital account. The proclamation defines that 20% (twenty percent) of net profit shall be paid each financial year into the General reserve fund until such fund equals the paid-up capital of the National Bank. The remaining 80% (eighty percent) shall be credited to the account of the Ministry of Finance (MOF).

Where the General reserve fund equals the paid-up capital of the Bank, the total amount of the net profit shall be credited each financial year to the account of the Ministry of Finance (MOF). Net losses of the National Bank shall be debited to the General reserve fund. If at any time, as a result of net losses sustained by the Bank, the General reserve fund is less than the paid-up capital, the fund is replenished as per proclamation guidance until it equals the paid-up capital.

(m) Revenues

Revenue comprises of:

- Interest income (Note 3 (m))
- Revenue from gold (Note 3(n))
- Fee and commission (Note 3(n))

(n) Interest

Effective interest rate

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 calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction 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.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(n) Interest (continued)

Amortized cost and gross carrying amount

The amortized 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 amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss.

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; and
- interest expense on lease liabilities.

Interest income and expense on all 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 assets and liabilities in net trading income.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(o) Revenues from contracts with customers

Revenue from sale of gold, fee and commission income from contracts with customers is based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant terms, and the related revenue recognition policies.

| Type of product (good or service) | Nature and timing of satisfaction of performance obligations, including significant payment terms |
|--|--|
| Gold | NBE recognizes revenue from gold when the customer receives right and ownership of the gold. This occurs when a deal is struck between the Bank and the customer on pricing and the customer takes possession of the product. The Bank's performance obligation is satisfied at a point in time when the gold is delivered to the customer. |
| Fee and commission income | The Bank provides foreign currency transactions services to banks, government and government agencies in Ethiopia. It also provide services relating to selling gold, issuance of bonds and treasury bills on behalf of the government. Transaction based fees are charged to the customer when the transaction takes place. The Bank's performance obligations are satisfied at a point in time. |

(p) Dividend income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss (FVPTL) or other revenue based on the underlying classification of the equity investment.

(q) Due from Government of Ethiopia

Balances due from the Government of Ethiopia arise from the following transactions:

- Direct advances bearing interest at 3% per annum, issued with no maturity date;
- Bonds bearing interest at the rate of 2% per annum which mature on 03 October 2044; and
- Non-interest bearing bond that is expected to mature in 2034.

Other than non-interest-bearing bonds which are measured at fair value by discounting them using a market related interest rate, all other balances due from the Government of Ethiopia are measured at amortized cost.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(r) Funds held at/due to International Monetary Fund (IMF)

Ethiopia has been a member of the International Monetary Fund (IMF) since 1966. The Bank is the designated depository for IMF's holdings of Ethiopia's currency. IMF currency holdings are held in form of either promissory notes which are payable on demand or in the No. 1 and No. 2 Accounts, which are deposit accounts of the IMF with the Bank.

Borrowings from and repayments to the IMF are denominated in Special Drawing Rights (SDRs). The SDR balances in the two IMF accounts (No. 1 and No. 2) are translated into Birr at the prevailing exchange rates as at 30 April of each year and any unrealized gains or losses resulting thereof are accounted for in accordance with accounting policy on foreign currencies and posted to either the currency valuation adjustment asset account where there is an exchange gain or the currency valuation adjustment – IMF financing liability account in the case of an exchange loss.

(s) Gold

NBE is mandated by the Government to buy gold deposits locally and sell the same in international markets. NBE works in conjunction with the Ministry of Mines and Ethiopian Geology survey to undertake gold purchase activities. The Ministry is responsible for verifying purity of gold purchased by the Bank. NBE recognizes three types of gold transactions which are: gold commodity; gold in transit and monetary gold.

Gold commodity comprises of raw gold or gold bullion which is sourced locally before it is refined and sold abroad. Gold commodity not sold at year end is considered as inventory and is measured at the lower of cost and net realizable value.

Gold in transit refers to gold that is held by the refineries or is in transit to refineries before it is processed to gold bullion. It is measured at the lower of cost and net realizable value.

Monetary gold refers to gold that is held in foreign financial institutions to enable the bank to build an international reserve. NBE invests a maximum of 8,000 ounces of gold in the form of time deposits at Commerz Bank.

In the absence of an accounting standard that specifically applies to accounting for transaction relating to monetary gold, NBE chose to apply IAS 8:10 and 11 (Accounting Policies, Changes in Accounting Estimates and Errors) and guidance issued by World Gold Council on how to account for gold by monetary authorities. This guidance was prepared with reference to the conceptual framework of current financial reporting standards and uses similar terminology as far as possible.

NBE measures monetary gold at fair value with gains and losses being recognized in statement of other comprehensive income (OCI).

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(t) Contingencies

The Bank, discloses by way of a note, a contingent liability when a condition or circumstance at the end of the reporting period of which the eventual result, either beneficial or prejudicial, can only be confirmed upon the occurrence or non-occurrence of one or more uncertain future events which are beyond the control of the Bank.

(u) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

(v) New Standards, amendments and interpretations

(i) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2021

A number of new standards, amendments to standard and interpretations are not yet effective for the period ended 30 June 2021 and have not been applied in preparing these financial statements. These are summarized as follows:

| 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 (Insurance Contracts) and IFRS 17 amendments (Insurance Contracts), Annual Improvements to IFRS Standards (2018 – 2020) (IFRS 1 and IAS 41 amendments) and Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (IAS 12 amendment) are not applicable to the business of the entity and will therefore have no impact on future financial statements. The director's opinion on the impact of the application of the remaining Standards and Interpretations will be as follows:

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(v) New Standards, amendments and interpretations (continued)

(i) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2021 (continued)

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.

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

Annual Improvements to IFRS Standards 2018-2020

| | |
|------------------------------|---|
| 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. |

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(v) New Standards, amendments and interpretations (continued)

(i) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2021 (continued)

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

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

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

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;

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(v) New Standards, amendments and interpretations (continued)

(i) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2021 (continued)

—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.

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

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:

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(v) New Standards, amendments and interpretations (continued)

(i) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2021 (continued)

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

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;

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

3. Significant accounting policies (continued)

(v) New Standards, amendments and interpretations (continued)

(i) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2021 (continued)

- 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.

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.

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.

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

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

4. Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method and are analyzed as follows:

| <i>Interest income</i> | For year ended 30 June 2021 | For year ended 30 June 2020 |
|------------------------------|--|--|
| Advance to Central Treasury | 1,378,232,878 | 1,794,485,329 |
| Priority sector loans | 2,067,048,423 | 1,890,045,684 |
| Foreign time deposits | 46,644,676 | 396,492,734 |
| Call and ordinary accounts | 4,471,705 | 721,907,531 |
| Foreign securities | 10,164,073 | 73,438,318 |
| Advance to domestic banks | 7,670,520,550 | 3,312,237,463 |
| Government bonds | 4,015,166,371 | 3,043,223,042 |
| Total interest income | 15,192,248,676 | 11,231,830,101 |

| <i>Interest expense</i> | For year ended 30 June 2021 | For year ended 30 June 2020 |
|--|--|--|
| NBE bills to domestic banks | 3,106,362,225 | 3,345,115,729 |
| Government deposits | 1,094,252,509 | 874,506,706 |
| International Monetary Fund | 5,533,769 | 64,817,230 |
| Correspondent banks | 3,559,635 | 3,516,013 |
| Interest on time deposits | 2,800,398,499 | 778,429,978 |
| General Resource Account (GRA) charge on Special Drawing Rights (SDR) Purchase ¹ | 102,861,429 | 73,804,568 |
| Total interest expense | 7,112,968,066 | 5,140,190,224 |

¹ Refer to Note 22 (b) for details on this disclosure item

5. Fee and commission income

Exchange service commission

| <i>Exchange service commission</i> | For year ended 30 June 2021 | For year ended 30 June 2020 |
|--|--|--|
| Foreign exchange transfers | 1,010,227,455 | 1,104,103,949 |
| Local banks | 3,067,944,262 | 1,987,668,389 |
| Government and Government institutions | 1,046,203,233 | 1,170,087,936 |
| Exchange service commission | 5,124,374,950 | 4,261,860,274 |

Service charge commission

| | | |
|--|----------------------|----------------------|
| Treasury bills | 149,249,719 | 146,787,053 |
| Commission charged on local sale of gold | 2,155,239 | 504,904 |
| Service charge commission | 151,404,958 | 147,291,957 |
| Total fee and commission income | 5,275,779,908 | 4,409,152,231 |

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

6. Revenue from sale of gold *

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|---------------|--|--|
| Local sales | 15,170,958 | 12,244,175 |
| Foreign sales | 23,506,061,987 | 1,029,784,838 |
| | <u>23,521,232,945</u> | <u>1,042,029,013</u> |

*Revenue from sale of gold was less than the gold purchase cost due to the increase on premium which was paid to the suppliers of the gold on the world gold price that prevails on the day of the supply from 5% to 10%-29% depending on the amount of the gold they supply to the Bank.

7. Other income

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|---|--|--|
| Dividend income | 30,867,476 | 2,242,598 |
| Postage, telephone and telex refunds | 94,676 | 100,456 |
| License fee* | 13,468,554 | 13,524,278 |
| Auction fee | 111,885 | 64,148 |
| Penalty on currency sorting | - | 650 |
| Stationery and printing | 3,205 | 53,100 |
| Sundries | 40,242,596 | 48,873,027 |
| Service charge on cheque books | 10,532 | 6,808 |
| Income from local currency notes | - | 67,540 |
| Amortisation of deferred revenue | 351,860 | 273,930 |
| Write back income | 40,000 | 409,979 |
| Grant assistance under the Catastrophe Containment and Relief Trust ** | 264,015,783 | 386,247,766 |
| Reimbursements From Ministry of Finance - IMF | 38,575,671 | - |
| | <u>387,782,238</u> | <u>451,864,280</u> |

***License fees:** These are earned from the issuance of new and renewal of business licenses to financial institutions giving them mandate to operate in Ethiopia. The financial institutions that are licensed include: banks, microfinance institutions as well as insurance businesses, insurance agencies, insurance actuaries, insurance surveyors and insurance brokers.

**Refer to Note 22 (b) for details on this disclosure item

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

8. Operating expenses

a). Currency costs

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|-----------------------------|--|--|
| Printing of bank notes | 3,290,494,937 | 292,769,194 |
| Minting of coins | 193,916,756 | - |
| Total currency costs | 3,484,411,693 | 292,769,194 |

b). General and administration costs

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|--|--|--|
| Depreciation and Amortization | 115,181,878 | 105,838,758 |
| Depreciation – Right of use asset | 153,324 | 153,324 |
| Loss on foreign exchange differences* | 7,266,412,156 | 1,992,787,714 |
| Fuel and lubricants | 1,905,275 | 1,943,974 |
| Membership fees | 2,105,925 | 1,003,232 |
| Travelling and per diem | 8,619,184 | 6,950,199 |
| Stationery and printing | 9,399,894 | 6,124,407 |
| Transportation of currency | 120,585,351 | 9,246,868 |
| Repairs and maintenance costs | 32,796,606 | 21,270,226 |
| Advertisements | 3,538,183 | 604,193 |
| Communications | 8,619,855 | 10,719,594 |
| Utilities | 3,293,846 | 4,787,454 |
| Reuters' Service | 3,644,462 | 3,308,719 |
| Insurance | 15,099,016 | 6,966,711 |
| Tuition fees | 644,687 | 1,376,069 |
| Subscriptions | 645,831 | 993,002 |
| Audit fee | 1,275,925 | 1,274,461 |
| Bankers' Club | 1,542,129 | 1,542,000 |
| Uniforms | 1,999,358 | 3,238,312 |
| Entertainment | 3,134,078 | 2,214,201 |
| Board fees | 1,479,000 | 1,424,000 |
| Legal expenses | 26,218 | 834,930 |
| Miscellaneous | 532,155,350 | 27,667,108 |
| Total general and administration expenses | 8,134,257,531 | 2,212,269,456 |

* **Loss on foreign exchange differences;** This balance arises from the net impact/differences resulting from translating a given number of units of foreign currencies into the bank's reporting currency, that is, ETB at different exchange rates.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

8. Operating expenses (continued)

c). Salaries and related benefits

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|--|--|--|
| Staff salaries | 204,205,577 | 132,210,652 |
| Periodic employees' benefits costs | 16,942,529 | 5,520,768 |
| Overtime | 12,058,835 | 7,926,080 |
| Bonus | 15,142,564 | 27,618,589 |
| Medical expenses | 16,521,570 | 12,961,827 |
| Representation allowance | 15,519,225 | 14,046,483 |
| Fuel and transportation allowance | 28,099,339 | 22,825,378 |
| Housing allowance | 28,740,628 | 28,060,917 |
| Salary outsourcing | 13,731,000 | 8,820,984 |
| Accumulated leave expenditure | 973,489 | 480,838 |
| Total salaries and related benefits | 351,934,756 | 260,472,516 |

d). Gold purchase, refinery and other related costs

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|--------------------------------|--|--|
| Gold purchase costs | 25,417,275,682 | 809,593,121 |
| Gold transport and other costs | 58,321,032 | 12,110,342 |
| | 25,475,596,714 | 821,703,463 |

e). Impairment losses on financial instruments

| | For year ended 30 June 2021 | For year ended 30 June 2020 |
|---|--|--|
| Balance as at 1 July – Financial assets ¹ | (796,357,310) | (232,419,217) |
| Balance as at 1 July – Other assets: | | |
| Loans to employees ² | (468,273) | (445,124) |
| Balance as at 1 July – Other assets: Staff advances ³ | (969,328) | (938,769) |
| Total balance as at 1 July | (797,794,910) | (233,803,110) |
| Charged to profit or loss – Financial assets ¹ | (1,259,296,975) | (563,938,093) |
| Charged to profit or loss – Other assets: | | |
| Loans to employees ² | (378,285) | (23,149) |
| Charged to profit or loss – Other assets: Staff advances ³ | 125,625 | (30,558) |
| Total charged to profit or loss | (1,259,549,635) | (563,991,800) |
| Total cumulative impairment losses | (2,057,344,545) | (797,794,910) |

National Bank of Ethiopia
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For the year ended 30 June 2021

¹Financial assets relate to instruments held in favour of the bank or owed to the bank by other financial institutions. The bank holds the following financial assets: loans due from the Government of Ethiopia, loans to Government banks; as well as call, current and time deposits held with foreign commercial and central banks.

²The bank provides interest free loans to employees. These loans are checked off against the staff payroll. However, in some cases employees may leave the Bank without settling their due loans in full. The Bank therefore assesses each of the cases and provides an impairment loss allowance against the outstanding staff loan balance.

³The Bank also provides staff advances to employees for field work purpose.

9. Financial assets

The following balances represent financial assets disclosures after factoring in expected credit loss (ECL):

| | 30 June 2021 | 30 June 2020 |
|--|------------------------|------------------------|
| Due from Government of Ethiopia (a) | 295,446,886,895 | 243,652,143,972 |
| Loans to government banks (b) | 171,403,158,255 | 169,583,439,505 |
| Due from foreign institutions – commercial banks (c) | 28,145,553,570 | 20,658,381,883 |
| Due from foreign institutions – central banks (d) | 94,285,262,858 | 81,958,441,772 |
| Cash - foreign currencies* (e) | 1,527,579,239 | 4,381,892,903 |
| Funds held with IMF (f) | 527,514,382 | 567,343,714 |
| Loans to private commercial banks (h) | 1,695,803,883 | 34,413,090 |
| Total Gross amounts | 593,031,759,082 | 520,836,056,839 |

| | 30 June 2021 | 30 June 2020 |
|--|------------------------|------------------------|
| Allowance for credit losses | | |
| Due from Government of Ethiopia (a) | (1,299,918,830) | (466,406,022) |
| Loans to government banks (b) | (754,146,355) | (324,621,554) |
| Due from foreign institutions – commercial banks (c) | (1,504,312) | (5,329,734) |
| Loans to private commercial banks (h) | (84,788) | - |
| Total impairment | (2,055,654,285) | (796,357,310) |
| Financial assets net of allowance for credit losses | 590,976,104,797 | 520,039,699,529 |

| | 30 June 2021 | 30 June 2020 |
|---|------------------------|----------------------|
| Allowance for credit losses movement | | |
| Balance as at 1 July | (796,357,310) | (232,419,217) |
| Charged to profit or loss | (1,259,296,975) | (563,938,093) |
| Balance as at 30 June | (2,055,654,285) | (796,357,310) |

*These financial assets were not impaired.

For the rest of the financial assets that were impaired, the following disclosures denote the impairment of the same.

National Bank of Ethiopia
Notes to the Financial Statements
For the year ended 30 June 2021

9. Financial assets (continued)

(a) Due from Government of Ethiopia

| | 30 June 2021 | 30 June 2020 |
|--|-------------------------------|-------------------------------|
| Direct advance ¹ | 83,500,000,000 | 31,000,000,000 |
| Non-interest-bearing bond ² | 4,960,391,902 | 5,661,642,623 |
| Interest bearing bonds ³ | 193,207,833,361 | 193,211,839,717 |
| Loan to Ministry of finance | 13,778,661,632 | 13,778,661,632 |
| Less: allowance for credit losses | (1,299,918,830) | (466,406,022) |
| | <u>294,146,968,065</u> | <u>243,185,737,950</u> |

¹NBE issues on a regular basis a perpetual direct advance to the government which bears interest at the rate of 3% per annum.

²NBE has issued a non-interest-bearing bond with a maturity date of 1 July 2034. The bond has been measured at the present value of all its future cash receipts discounted at an effective interest rate of 3%. The bank determined this to be the prevailing market rate of interest for similar bonds issued to the government. NBE has reclassified day one fair value gains and losses of non-interest-bearing bond financial assets in order to eliminate any accounting mismatch which would otherwise arise.

³NBE has issued a 2% annual interest bonds which mature on 3 October 2044.

In period ended 30 June 2020, following the passing of a policy decision by the board of directors, the bank restructured the direct advance loan balance outstanding as at 30 June 2019 of ETB. 187,264,945,000 and ETB 5,000,000,000 being part of direct advance loan issued during the period to a 2% government bond which is payable in thirty equal semi-instalments starting from 03 April 2030.

NBE does not require collateral or guarantee to loan funds to the Government of Ethiopia.

(b) Loans to government banks

| | 30 June 2021 | 30 June 2020 |
|---|-------------------------------|-------------------------------|
| Development Bank of Ethiopia priority sector loans ¹ | 57,388,274,954 | 58,919,548,927 |
| Commercial Bank of Ethiopia bonds ² | 113,674,038,045 | 110,663,890,578 |
| Commercial Bank of Ethiopia short term loan ³ | 340,845,256 | - |
| Less: allowance for credit losses | (754,146,355) | (324,621,553) |
| | <u>170,649,011,900</u> | <u>169,258,817,952</u> |

¹NBE issues loans to DBE for priority sector investment projects and charges interest at the rate of 5%. These loans have loan tenure of 5 years.

National Bank of Ethiopia
Notes to the Financial Statements
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9. Financial assets (continued)

²The Bank issues two types of bonds to the Commercial Bank of Ethiopia. The first are term bonds for amounts ETB 81.4 billion and ETB 9.0 billion. The principal amounts of these bonds shall become due within 10 years from the date of receipt by CBE. The interest on these bonds is paid semi-annually. The second type of bond is a coupon bond, these being numbers 055 – 058 with total amounts of ETB 16 billion due within one year from the date of receipt by CBE repayable in 4 equal semi-annual installments. Both types of bonds bear 7% interest.

³The bank extended one year credit facilities aimed at supporting borrowers from hotel and tourism sectors to cope with the COVID-19 pandemic and attract a 5% interest rate.

NBE does not require collateral or guarantee to loan funds to government banks.

(c) Due from foreign institutions – commercial banks

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|--|-----------------------|-----------------------|
| Due from foreign institutions – commercial banks | 28,145,553,570 | 20,658,381,882 |
| Less: Impairment | (1,504,312) | (5,329,734) |
| | <u>28,144,049,258</u> | <u>20,653,052,148</u> |

The balance due from commercial banks by NBE represents call, current and time deposit accounts held with the following foreign institutions: CITIBANK New York (USD); JP Morgan Chase (USD); National Westminster - London (GBP); Nordea Bank (NOK); Commerz International bank (XAU / XAG); Commerz bank AG Luxemburg (USD and GBP); Commerz bank AG Frankfurt; Bank of Tokyo (YEN) and Standard Chartered Bank – London (GBP).

(d) Due from foreign institutions – central banks

The Bank maintains call, current and time deposits with several central banks domiciled in Europe, USA and Asia. These central banks include: Federal Reserve Bank of New York (USD); Bank for International Settlements (BIS); Bank of England (GBP); Deutsche Bundesbank (EURO); Banque Nati de Belgique (EURO); Banca D'Italia (EURO); International Bank of Reconstruction and Development (IBRD) and Central Bank of The United Arab Emirate .

(e) Cash - foreign currencies

This relates to cash held by NBE in foreign currency denominations.

The foreign currency balances are translated to Ethiopian Birr (ETB) at each reporting date using the spot rate applicable on that date. As at 30 June 2021, NBE held foreign currency balances worth ETB. 1,527,579,239 (2020: ETB 4,381,892,903).

National Bank of Ethiopia
Notes to the Financial Statements
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9. Financial assets (continued)

(f) Funds held with IMF

This is stock of IMF currency for NBE held by IMF. The account which is denominated in SDR is used to deposit funds to effect payments against IMF obligations such as loan repayments. The SDR currency is derived from a basket of 5 currencies (USD, EURO, GBP, JPY and Yuan).

(g) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including foreign currencies on hand, balances held with foreign institutions – commercial and central banks and funds held with IMF.

| <i>Cash and cash equivalents comprise:</i> | For year ended 30 June 2021 | For year ended 30 June 2020 |
|---|--|--|
| Balances due from foreign entities – Commercial banks | 28,144,049,258 | 20,653,052,148 |
| Balances due from foreign entities – Central banks | 94,285,262,858 | 81,958,441,772 |
| Cash - foreign currencies | 1,527,579,239 | 4,381,892,903 |
| Funds held with IMF | 527,514,382 | 567,343,715 |
| | 124,484,405,737 | 107,560,730,538 |
| Less: IBRD* investment with maturity period over three months | (6,368,943,640) | (5,105,009,465) |
| | 118,115,462,097 | 102,455,721,073 |

* IBRD - The International Bank for Reconstruction and Development

For further details on cash and cash equivalents, refer to notes 9 (c, d, e, f and g) above.

(h) Loans to private commercial banks

In the financial period ended 30 June 2021, NBE extended one-year credit facilities to 15 local commercial Banks worth ETB 1,578,199,970 in total of which ETB 1,294,521,678 was outstanding as at 30 June 2021; and one-month credit facilities to 7 local commercial Banks worth ETB 20,200,000,000 in total of which ETB 401,282,192 was outstanding as at 30 June 2021. The loans are aimed at promoting financial sector stability and temporarily support the hotel and tourism sectors cope with the COVID-19 pandemic and attract a 5% & 4.5% interest.

These outstanding loans are guaranteed by NBE bills and other government securities worth ETB 3,754,277,091.

National Bank of Ethiopia
Notes to the Financial Statements
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10. Investment securities

The Bank holds the following investments in shares:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-----------------------------------|-----------------------|-----------------------|
| International Monetary Fund quota | 23,854,237,253 | 13,997,559,043 |
| African Export-Import Bank | 238,330,379 | 264,342,196 |
| Africa Re-insurance | 102,502,939 | 73,989,650 |
| | <u>24,195,070,571</u> | <u>14,335,890,889</u> |

On initial recognition the bank made an irrevocable election to present in other comprehensive income the changes in the fair value of all its investments in shares not held for trading. The changes in the fair values of the investment instruments were as follows:

| | <u>Amount ETB</u> |
|---|-----------------------|
| Opening balances – 1 July 2019 | 12,100,176,482 |
| Fair value adjustments – IMF | 2,177,212,742 |
| Fair value adjustments – other securities | 58,501,665 |
| Closing balances – 30 June 2020 | 14,335,890,889 |
| Fair value adjustments – IMF | 9,856,678,210 |
| Fair value adjustments – other securities | (24,812,828) |
| Additional share acquisition by dividend payment (70 shares of African Export-Import Bank) | 27,314,300 |
| Closing balances – 30 June 2021 | 24,195,070,571 |

IMF quota refers to NBE's share of membership to the IMF. The quota is determined upon admission to the IMF and is increased periodically under general quotas reviews. Its valuation is done on a quarterly basis by the IMF.

11. Gold

(a) Monetary gold

The Bank holds gold deposits at Commerz Bank to enable the bank to build an international reserve but sold at September 30, 2020. The value of gold held as time deposits in Commerz bank is as follows:

| | <u>Amount ETB</u> |
|---|-----------------------|
| Opening balances – 30 June 2019 | 324,860,900 |
| Exchange rate adjustments | 171,946,025 |
| Fair value adjustments | (855,887) |
| Closing balances – 30 June 2020 | 495,951,038 |
| Exchange rate adjustments | 51,685,226 |
| Fair value adjustments | (256,708) |
| Closing balances – 30 September 2020 | 547,379,557 |
| Gold Sold | (547,379,557) |
| Closing balances – 30 June 2021 | - |

National Bank of Ethiopia
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For the year ended 30 June 2021

11. Gold (Continued)

(b) Gold commodity

Gold commodity comprises of raw gold or gold bullion which is sourced locally before it is refined and sold abroad. Gold commodity not sold at year end is considered as inventory and is measured at lower of cost and net realizable value.

The value of commodity gold is as follow;

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-----------------|----------------------|----------------------|
| Opening balance | 3,280,634,229 | 804,878,004 |
| Purchases | 26,477,470,888 | 3,517,931,528 |
| Sales | (26,126,514,577) | (1,042,175,303) |
| Closing balance | <u>3,631,590,539</u> | <u>3,280,634,229</u> |

12. Related parties

(a) Parent and ultimate controlling party

The National Bank of Ethiopia was established in 1963 under order No. 30/1963 and is fully owned by the government of Ethiopia through the Ministry of Finance (MOF).

In the normal course of its operations, the Bank enters into transactions with related parties who include the following:

| No | Related party | Nature of relationship | Nature of transaction with related party |
|----|--|---------------------------------------|--|
| 1 | Key management personnel | Members of the management team at NBE | Normal business terms |
| 2 | Commercial Bank of Ethiopia (CBE) | Associate | Normal business terms |
| 3 | Development Bank of Ethiopia (DBE) | Associate | Normal business terms |
| 4 | Government of Ethiopia through The Ministry of Finance (MOF) | Owner | Normal business terms |

(b) Key management personnel

The key management personnel of the National Bank of Ethiopia comprise of the following:

- i.) The Board which includes the Governor and Vice governor in charge of monetary stability cluster
- ii.) Vice-Governor – Financial Institutions Supervision
- iii.) Vice-Governor – Corporate Services

National Bank of Ethiopia
Notes to the Financial Statements
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12. Related parties (continued)

Key management members received the following remuneration during the years ended 30 June 2021 and 30 June 2020:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|------------------------------|-------------------------|-------------------------|
| Short-term employee benefits | 4,594,349 | 3,749,207 |
| Other long-term benefits | 258,070 | 170,817 |
| Post-employment benefits | 2,029,173 | 1,736,393 |
| | <u>6,881,592</u> | <u>5,656,417</u> |

Compensation of the Bank's key management personnel includes all short- and long-term benefits as well as consideration of their post-employment benefits. Some of the key management personnel, who are not part of NBE staff such as some of the Board members, are only entitled to monthly board fee and annual bonus. These amounts are also included within salaries and related benefits note (Note 8 (c)).

(c) Loans to key management personnel

In accordance with the Bank's policy, NBE issues interest-free loans to key management personnel whose collateral is personal guarantees from NBE members of staff.

At the end of each reporting period, the Bank performs an impairment assessment on the outstanding balances and provides for expected credit losses. The impairment loss has been included in the sum of impairment losses of all staff loan balances for the periods ended 30 June 2021 and 30 June 2020. The loans to key management and the impairing arising thereof for these periods were as follows:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|--|-----------------------|-----------------------|
| Gross loans to key management (governor and vice-governors) | 217,140 | 702,299 |
| Impairment | (1,734) | (4,891) |
| Net loans to key management (governor and vice-governors) | <u>215,406</u> | <u>697,408</u> |

(d) Other related parties transactions

The Bank entered into related party transactions whose terms were not equivalent to those that prevail in arm's length transactions. These transactions include loans, deposits and foreign currency transactions.

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:

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(d) Other Related parties transactions (continued)

i.) Transactions with Commercial Bank of Ethiopia:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|---|------------------------|------------------------|
| CBE Term Bonds | 113,674,038,045 | 110,663,890,578 |
| Commercial Bank of Ethiopia A/R (ETB) | 12,761,725,440 | - |
| Commercial Bank of Ethiopia short term loan | 340,845,256 | - |
| | <u>126,776,608,741</u> | <u>110,663,890,578</u> |

The above amounts are the gross carrying amounts before impairment.

The interest earned on the CBE Term Bonds & short term loan was ETB 7,457,865,922 (2020: ETB 4,045,233,715). The impairment loss on CBE Term bond & short term loan was ETB 501,647,166 (2020: ETB 211,836,039).

ii.) Transactions with Development Bank of Ethiopia:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-------------------|-----------------------|-----------------------|
| DBE Priority loan | 57,388,274,954 | 58,919,548,927 |
| | <u>57,388,274,954</u> | <u>58,919,548,927</u> |

The above amounts are the gross carrying amounts before impairment.

The interest earned on the DBE priority loan was ETB 2,067,048,423 (2020: ETB 1,890,045,684). The impairment loss on DBE priority loan was ETB 252,499,189 (2020: ETB 112,785,515).

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13. Property and equipment

| 2021 | Balance at 30 June 2020 | Additions | Disposals | Reclassifications | Adjustments | Balance at 30 June 2021 |
|-------------------------------|--------------------------|----------------------|-----------------|-------------------|--------------------|-------------------------|
| <i>Cost</i> | | | | | | |
| Buildings | 1,326,103,661 | - | - | 2,330,317 | - | 1,328,433,978 |
| Office and other equipment | 382,309,282 | 24,538,442 | - | - | - | 406,847,724 |
| Office furniture and fittings | 22,864,542 | 4,978,829 | - | - | - | 27,843,371 |
| Motor vehicles | 90,718,909 | 7,652,516 | (41,370) | 44,036,067 | - | 142,366,122 |
| Work in progress* | 117,685,513 | 20,217,243 | - | (46,366,384) | (1,319,740) | 90,216,632 |
| | 1,939,681,907 | 57,387,030 | (41,370) | - | (1,319,740) | 1,995,707,827 |
| <i>Depreciation</i> | | | | | | |
| Building | (198,888,147) | (49,794,487) | - | - | - | (248,682,634) |
| Office and other equipment | (311,076,410) | (37,366,518) | - | - | (209,963) | (348,652,891) |
| Office furniture and fittings | (16,542,551) | (2,863,507) | - | - | - | (19,406,058) |
| Motor vehicles | (37,259,100) | (19,256,609) | 25,910 | - | - | (56,489,799) |
| | (563,766,208) | (109,281,121) | 25,910 | - | (209,963) | (673,231,382) |
| Net carrying amount | ETB 1,375,915,699 | (51,894,091) | (15,460) | - | (1,529,703) | 1,322,476,445 |

* The reclassification on the work in progress class of assets relates to reclassification of motor vehicles assets amounting to ETB 44,036,069 and building assets amounting to ETB 2,330,317.

Aggregate value of PPE purchase price amounting Birr 219,714,403 are fully depreciated and has a residual value of birr 2,218,176 were still in use.

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13. Property and equipment (continued)

| 2020 | Balance at 30 June 2019 | Additions | Disposals | Reclassifications | Adjustments | Balance at 30 June 2020 |
|--|------------------------------------|----------------------|--------------------|--------------------------|--------------------|------------------------------------|
| Cost | | | | | | |
| Buildings | 1,325,897,709 | 205,952 | - | - | - | 1,326,103,661 |
| Office and other equipment | 356,568,440 | 25,740,842 | - | - | - | 382,309,282 |
| Office furniture and fittings | 19,507,026 | 3,357,516 | - | - | - | 22,864,542 |
| Motor vehicles | 65,610,408 | 26,834,334 | (1,725,833) | - | - | 90,718,909 |
| Work in progress* | 38,144,564 | 85,070,544 | - | (4,034,351) | (1,495,244) | 117,685,513 |
| | 1,805,728,147 | 141,209,188 | (1,725,833) | (4,034,351) | (1,495,244) | 1,939,681,907 |
| Depreciation | | | | | | |
| Building | (149,163,492) | (49,724,655) | - | - | - | (198,888,147) |
| Office and other equipment | (272,963,540) | (37,832,920) | - | - | (279,950) | (311,076,410) |
| Office furniture and fittings | (14,309,807) | (2,232,744) | - | - | - | (16,542,551) |
| Motor vehicles | (27,598,385) | (10,575,323) | 914,608 | - | - | (37,259,100) |
| | (464,035,224) | (100,365,642) | 914,608 | (279,950) | (279,950) | (563,766,208) |
| Net carrying amount | ETB 1,341,692,923 | 40,843,546 | (811,225) | (4,034,351) | (1,775,194) | 1,375,915,699 |

*The reclassification on the work in progress class of assets relates to reclassification of intangible assets amounting to ETB. 4,034,351.

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14. Intangible assets

| | | <u>Software</u> |
|------------------------------------|------------|----------------------------|
| <i>Cost</i> | | |
| Balance at 30 June 2020 | ETB | 94,522,849 |
| Additions / transfers from CWIP | | - |
| Balance at 30 June 2021* | | <u>94,522,849</u> |
| <i>Amortization and impairment</i> | | |
| Balance at 30 June 2020 | | (83,513,045) |
| Additions | | (5,900,757) |
| Balance at 30 June 2021 | | <u>(89,413,802)</u> |
| Net carrying amount | ETB | <u>5,109,046</u> |
| | | <u>Software</u> |
| <i>Cost</i> | | |
| Balance at 30 June 2019 | ETB | 90,488,498 |
| Additions | | 4,034,351 |
| Balance at 30 June 2020 | | <u>94,522,849</u> |
| <i>Amortization and impairment</i> | | |
| Balance at 30 June 2019 | | (78,039,930) |
| Additions | | (5,473,115) |
| Balance at 30 June 2020 | | <u>(83,513,045)</u> |
| Net carrying amount | ETB | <u>11,009,804</u> |

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

In the financial period ended 30 June 2021, NBE not acquired new software. There were no idle assets and changes relating to the useful lives of intangible assets as at 30 June 2021 and 30 June 2020.

*Aggregate value of Intangible assets relate to software amounting Birr 65,019,062 are fully amortized were still in use.

15. Other assets

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|--|------------------------------|-----------------------------|
| Advances to CBE for gold purchases | 4,115,737,373 | 4,276,525,268 |
| Sundry receivables from CBE | 12,761,725,440 | - |
| Commemorative souvenirs in gold and silver | 10,119,596 | 10,392,425 |
| Loans to employees (a) | 56,494,289 | 46,076,289 |
| Staff advances (b) | 475,409 | 136,231 |
| Office and other consumables (c) | 18,506,572 | 22,386,664 |
| Uncleared effects | 5,128,849 | 5,196,172 |
| Sundry receivables | 824,001,990 | 2,239,677,041 |
| Miscellaneous* | (111,244,383) | (32,744,847) |
| | <u>17,680,945,135</u> | <u>6,567,645,243</u> |

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15. Other assets (continued)

* The balances under the miscellaneous account relate to the following items: CMD unadjusted notes in circulation, Claim on CBs and FEMRMD - Treasury suspense account. The FEMRMD - Treasury suspense account is the biggest contributor to the negative debit balance as Shown in the periods 30 June 2021.

(a) Loans to employees

The Bank extends interest free loans, which are therefore at a lower rate compared to the prevailing market rates and bear annual interest of 17.6%, to all its staff in accordance with the Bank's policy. The loans are repayable within three years and are secured by a guarantor. The bank does not perform a fair valuation of these loans since the tenure/duration of these loans is short-term in nature and the credit exposure to the bank is minimal.

The Bank performs an impairment test on a continuous basis and provides an allowance for impairment losses at the reporting date.

Loans to employees for the two periods were as follows:

| | 30 June 2021 | 30 June 2020 |
|-------------------------------|---------------------|---------------------|
| Gross Loans to employees | 57,340,845 | 46,544,560 |
| Cumulative impairment losses | (846,556) | (468,271) |
| Net Loans to employees | 56,494,289 | 46,076,289 |

Movement of impairment losses for staff loan accounts

| | 30 June 2021 | 30 June 2020 |
|------------------------------|---------------------|---------------------|
| Balance as at 1 July | 468,271 | 445,122 |
| Charged to profit or loss | 378,285 | 23,149 |
| Balance as at 30 June | 846,556 | 468,271 |

(b) Staff advances

The following table shows the staff advances breakdown:

| | 30 June 2021 | 30 June 2020 |
|------------------------------|---------------------|---------------------|
| Gross staff advances | 1,319,112 | 1,105,559 |
| Cumulative Impairment losses | (843,703) | (969,328) |
| Net staff advances | 475,409 | 136,231 |

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15. Other assets (continued)

(b) Staff advances (continued)

| Movement of impairment losses for staff advances | 30 June 2021 | 30 June 2020 |
|---|---------------------|---------------------|
| Balance as at 1 July | (969,328) | (938,770) |
| Charged to profit or loss | 125,625 | (30,558) |
| Balance as at 30 June | (843,703) | (969,328) |

(c) Office and other consumables

The breakdown of office and other consumables items is as shown below:

| <i>Office and other consumables</i> | 30 June 2021 | 30 June 2020 |
|--|---------------------|---------------------|
| Gross carrying amount | 18,310,657 | 48,146,664 |
| Office and other consumables – adjustments | 195,915 | (25,760,000) |
| Net carrying amount | 18,506,752 | 22,386,664 |

The Bank's office and other consumables comprise of spare parts, stationary items, uniforms, stocks of facilities for office equipment, buildings, sorting and shredding machine, cleaning and sanitary materials, fuel and lubricant, tyres and inner tubes. These office and other consumables are not meant for resale and are therefore measured at cost.

16. Right of use assets

The Bank leases some buildings within Ethiopia. Information about leases for which the Bank is a lessee is presented below:

Right-of-use assets:

| | 30 June 2021 | 30 June 2020 |
|--------------------------------------|---------------------|---------------------|
| Cost | | |
| Balance at the beginning of the year | 2,759,826 | 2,759,826 |
| Balance as at 30 June | 2,759,826 | 2,759,826 |
| Depreciation | | |
| Balance as at 1 July | (613,296) | (459,972) |
| Charge for the year | (153,324) | (153,324) |
| Balance at 30 June | (766,620) | (613,296) |
| Net carrying value | 1,993,206 | 2,146,530 |

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16. Right of use assets (continued)

Lease liabilities:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|----------------------------------|-------------------------|-------------------------|
| Balance at beginning of the year | 2,348,737 | 2,454,770 |
| Interest expense | 134,234 | 140,987 |
| Payments made during the year | (247,020) | (247,020) |
| Net carrying value | <u>2,235,951</u> | <u>2,348,737</u> |

Maturity analysis:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-------------------|-------------------------|-------------------------|
| Less than 1 year | 226,435 | 226,435 |
| 1 – 2 years | 247,020 | 247,020 |
| 3 – 5 years | 761,645 | 761,645 |
| More than 5 years | 1,976,222 | 2,202,657 |
| Total | <u>3,211,322</u> | <u>3,437,757</u> |

NBE calculated lease related assets and liabilities per its accounting policy disclosed on Note 3(e). As a lender of last resort, the Bank is not subject to conventional borrowing patterns of a commercial bank. In the event that the Bank had to borrow funds equivalent to the value of the right of use asset, the Bank would be financed by the Government through issuance of a bond. The Bank used an incremental borrowing rate that is equivalent to the Grand Renaissance bond issued by the government. The Grand Renaissance bond was issued at a rate of 6%. The Bank adopted this rate as its incremental borrowing rate for purposes of computing its lease liabilities. The Bank had no short-term lease commitments in period ended 30 June 2021 therefore no lease expense was recognized in statement of profit or loss and other comprehensive income.

17. Deposits due to local financial institutions, government, and government institutions

Deposits due to financial institutions and the Government were as follows:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|---|-------------------------------|-------------------------------|
| <i>Domestic currency deposits</i> | | |
| Deposits from banks | 100,710,322,708 | 108,028,031,138 |
| NBE bills payable to domestic banks ¹ | 81,200,806,277 | 80,771,186,208 |
| Deposits from insurance companies ² | 12,057,509 | 8,557,454 |
| Government and governmental agencies ³ | 73,698,384,359 | 34,526,757,236 |
| | <u>255,621,570,853</u> | <u>223,334,532,036</u> |
| <i>Foreign currency deposits</i> | | |
| Government and governmental agencies | 61,895,997,679 | 44,097,658,141 |
| | <u>61,895,997,679</u> | <u>44,097,658,141</u> |
| Deposits from banks and government | <u>317,517,568,532</u> | <u>267,432,190,177</u> |

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17. Deposits due to local financial institutions, government, and government institutions (continued)

¹NBE requires that all private commercial banks purchase bills equivalent to 27% of their monthly loans to customers. NBE issues five-year bills at a rate of 3% in order to foster financial stability within the country and control inflation. The interest rate was increased to 5% with effect from 1 September 2018.

²All insurance companies are required to deposit 5% of their annual net earned premium with NBE. The amounts of deposits with NBE are adjusted on an annual basis depending on the growth in an insurance company's net earned premium. These deposits do not earn any interest and neither does NBE reinvest this money.

³The Government and Government agencies deposit money with NBE. These deposits are denominated in both domestic and foreign currencies with domestic deposits earning interest at the rate of 3% pa. The obligation arising from NBE holding these deposits is measured at cost i.e. the actual value of the deposit. The finance cost is recognized as an expense in the statement of profit or loss over the period NBE holds the deposit. The interest payments to Ministry of Finance (MOF) are done monthly.

Deposits from banks is made up of the following:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|---------------------------------|------------------------|------------------------|
| Payment and Settlement accounts | 23,429,799,228 | 48,275,478,383 |
| Reserve accounts | 69,379,588,242 | 52,761,372,107 |
| Issue accounts | 7,900,935,238 | 6,991,180,648 |
| | <u>100,710,322,708</u> | <u>108,028,031,138</u> |

18. Due to International Financial institutions

Deposits due to international financial institutions were as follows:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|--|-----------------------|-----------------------|
| International Monetary Fund (IMF) | 57,658,648,195 | 44,252,602,818 |
| International Bank for Reconstruction and Development (IBRD) | 5,998,275 | 52,407,187 |
| International Development Association | 705,068 | 705,068 |
| Multilateral Investment Guarantee Agency | 156,782 | 156,782 |
| | <u>57,665,508,321</u> | <u>44,305,871,855</u> |

NBE holds funds it has received from international financial institutions as either loans or direct bank deposits that it is obliged to repay back as per the membership agreements. The obligation is measured at amortized cost.

NBE has four types of obligations to IMF as follows:

| <i>International Monetary Fund</i> | <u>30 June 2021</u> | <u>30 June 2020</u> |
|------------------------------------|-----------------------|-----------------------|
| IMF deposits | 17,994,053,802 | 8,137,375,592 |
| IMF loans | 8,383,103,560 | 6,670,154,507 |
| SDR allocation | 8,068,655,566 | 6,232,237,452 |
| Promissory notes | 23,212,835,267 | 23,212,835,267 |
| | <u>57,658,648,195</u> | <u>44,252,602,818</u> |

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19. Due to other institutions

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|---|-----------------------|-----------------------|
| <i>Deposits from foreign institutions</i> | | |
| Foreign currency deposits due to International institutions | 219,683,383 | 166,501,572 |
| Time deposits due to Saudi Arabia ¹ | 43,909,500,000 | 35,157,100,000 |
| Time deposit due to Abu Dhabi ² | 43,909,500,000 | 35,157,100,000 |
| | <u>88,038,683,383</u> | <u>70,480,701,572</u> |

¹Saudi Arabia deposited a time deposit worth USD 1 billion with NBE in November 2015 for a period of 6 years at an interest rate of 3%. NBE received an additional time deposit of USD 500 Million in period ended 30 June 2019. The two parties agreed to a new repayment plan. NBE did not offer any collateral for the time deposit.

²NBE received a new time deposit of amount USD 1 billion from Abu Dhabi Fund in period ended 30 June 2019 at a fixed interest rate of 3% per annum payable semi annually.

20. Currency in circulation

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-------|------------------------|------------------------|
| Notes | 162,501,673,534 | 139,342,751,657 |
| Coins | 1,208,018,198 | 1,178,375,652 |
| | <u>163,709,691,732</u> | <u>140,521,127,309</u> |

NBE issues notes and coins on behalf of the government to the country to run the economy; monitor the inflation rates and maintain economic stability. These are non-interest-bearing liabilities and are due on demand.

21. Provisions

| | <u>Bonuses</u> | <u>Legal</u> | <u>Total</u> |
|---|-------------------|------------------|-------------------|
| Balances at 30 June 2019 | 11,787,757 | 2,088,635 | 13,876,392 |
| Increases (decrease) recorded in profit or loss | 27,618,589 | 746,337 | 28,364,926 |
| Paid during the year | (11,787,757) | - | (11,787,757) |
| Balances at 30 June 2020 | 27,618,589 | 2,834,972 | 30,453,561 |
| Increases (decrease) recorded in profit or loss | 15,142,564 | (829,385) | 14,313,179 |
| Provisions used during the year | (27,618,589) | - | (27,618,589) |
| Balances at 30 June 2021 | 15,142,564 | 2,005,587 | 17,148,151 |

Bonus represent short-term benefits arising from past services provided by employees and are expected to be paid within the next 12 months. Legal provisions represent various claims that are pending outcome at the courts which the Bank's legal team has dermined that Bank is more than probable to lose. The Bank has created a provision for this amount to ensure the Bank is covered when the legal claims are decided against the Bank. The Bank is currently not involved in cases with determined amount therefore no provision was recognised for the period ended 30 June 2021.

A provision of ETB 829,385 has since been reversed as two cases were decided in favor of NBE and settled within 2021 FY.

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22. Government grants

(a) Land grant

NBE was awarded five (5) parcels of land by the Federal government on which the Bank constructed buildings for its own use. Below are the details of the land awarded by Federal government:

| Location | Sub-city | Landholding certificate issue date | Size (metres squared) | Lease term |
|-------------|---------------------|------------------------------------|-----------------------|-------------------------------------|
| Addis Ababa | Akaki Kaliti | 28 February 2000 | 165,067 | Refer to comment below ² |
| Addis Ababa | Lideta | 17 July 2011 | 7,669 | |
| Addis Ababa | Lideta | 12 January 1999 | 5,862 | |
| Addis Ababa | Lideta ¹ | 01 July 1978 | - | |
| Addis Ababa | Kirkos | 04 December 2018 | 4,869 | |

¹ The bank awaits a revised land holding certificate which will determine the correct sizes of the parcel of land

²At the time of award of these parcels of land, there were no lease terms defined as they were indicated as old possessions in the certificate of ownership. Further the bank has not been making any lease payments on these properties

The Bank was awarded additional six (6) parcels of land by the regional governments and chartered cities which were awarded free of charge. The Bank settled displacement cost and annual government land use rates related to the land awarded. The land was donated to NBE in order to enhance the Banks' ability to provide central banking services to institutions in various regions and cities. The right to use additional land in Kombolcha (Amhara region) commenced on 9 February 2016 and is still in progress. There are no unfulfilled conditions or contingencies attached to this government grants.

Below are the details of land awarded by the regional governments:

| Regional government | Location | Landholding certificate issue date | Size (metres squared) | Lease term |
|---------------------|--------------------------|------------------------------------|-----------------------|-------------------------------------|
| Diredawa | Dire dawa | 06 July 2017 | 12,000 | 99 years |
| Amhara | Bahir Dar City | 20 October 2015 | 12,000 | 70 years |
| SNNP | Hawasa | 05 August 2016 | 10,855 | 99 years |
| SNNP | Wolata Sodo ¹ | 29 October 2015 | 12,000 | Refer to comment ¹ below |
| Tigre | Mekele ¹ | 20 October 2015 | 8,807 | |
| Amhara | Kombolcha ² | 09 February 2016 | 12,000 | Refer to comment ² below |

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22. Government grants (continued)

(a) Land grant

¹ No lease term defined for these two (2) parcels of land. The certificate of ownership for these two parcels of land indicates these as old possessions.

² The bank has received a temporary documentation for this parcel of land and currently awaits the official land holding certificate that should define the lease term.

The bank received all six (6) parcels of land free of any lease payments from the regional governments and is not expected to make any lease payments even on the parcels of land with a defined lease term.

The Bank has incurred the following costs in fulfilling the land grant conditions and contingencies.

| Regional government | Location | Displacement costs ETB |
|----------------------------|-----------------|-------------------------------|
| Diredawa | Dire dawa | 2,822,639 |
| SNNP | Wolata Sodo | 8,059,041 |
| SNNP | Hawasa | 195,498 |
| Amhara | Kombolcha | 2,094,363 |

The above displacement costs have been recorded under capital work in progress (CWIP). The costs will be capitalized under buildings when the construction is finalised for the same.

(b) Monetary donation

Monetary grants refer to donations received in the form of money. The Bank received a monetary donation for the purchase of twenty laptops from Rural Financial Intermediation Programme II (RUFIP) on 14 May 2018.

The laptops were purchased for use by the Microfinance Supervision Directorate to enhance efficiency in provision of services to Microfinance institutions. The Bank adopted government grant accounting for asset-based grants and recognizes the laptops at cost under property and equipment.

The laptops have been classified under property and equipment.

On April 13, 2020, IMF executive board determined that Ethiopia was eligible and qualified for grant assistance for immediate debt service relief in accordance with the Catastrophe (COVID 19) Containment and Relief Trust (CCRT) instrument. The IMF executive board approved Ethiopia's request for grant assistance on April 30, 2020. The fund disbursed a grant assistance of XDR 8,022,000 (Equivalent ETB 372,529,647). NBE utilized the grant assistance to repay Ethiopia's Poverty Reduction and Growth Trust (PRGT) principal obligations falling due between April 14, 2020 and October 13, 2020.

On May 6, 2020 the IMF executive board approved a grant assistance for XDR 295,404 (Equivalent ETB 13,718,118.65) to Ethiopia CCRT umbrella account. The grant assistance was used to pay Ethiopia's eligible General Resource Account (GRA) charges falling due between April 14, 2020 and October 13, 2020 on GRA credit that was outstanding on April 14, 2020.

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22. Government grants (continued)

(c) Non-monetary donation

Non-monetary grants refer to donations received in kind. The Bank received one motor vehicle from the European Union on 01 October 2003 and two motor vehicles (Toyota land cruiser station wagon) from RUFIP for the RUFIP project on 7 September 2005. The Bank also received donated hardware and software from World Bank for the CIC system project in the year 2011 and 2012.

The Bank recognised the motor vehicles at fair value using the gross method while the computer software and hardware were recognized at nominal value using the gross method.

There are no unfulfilled conditions or contingencies attached to these donations

(d) Deferred revenue

| | | Deferred revenue |
|--------------------------------|------------|-------------------------|
| <i>Cost</i> | | |
| Balance at 30 June 2020 | ETB | 1,904,841 |
| Additions | | 162,770 |
| Balance at 30 June 2021 | | 2,067,611 |
| <i>Amortization</i> | | |
| Balance at 30 June 2020 | | (580,196) |
| Additions | | (351,860) |
| Balance at 30 June 2021 | | (932,056) |
| Net balance | ETB | 1,135,555 |
| | | |
| | | Deferred revenue |
| <i>Cost</i> | | |
| Balance at 30 June 2019 | ETB | 661,903 |
| Additions | | 1,242,938 |
| Balance at 30 June 2020 | | 1,904,841 |
| <i>Amortization</i> | | |
| Balance at 30 June 2019 | | (306,266) |
| Additions | | (273,930) |
| Balance at 30 June 2020 | | (580,196) |
| Net balance | ETB | 1,324,645 |

NBE received as donations two VPN boxes from Swift Company and two servers locally from the RUFIP grant. The costs of these items, which include import duty and value added tax (VAT) that was settled by NBE, have been capitalized as property and equipment. The bank received as donations two I pad from Civil Service Commition on April 2021 and two laptop from Ministry of Finance on January 2021.

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23. Due to the Ministry of Finance

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|---|-----------------------------|------------------------------|
| Balance as at 30 June | 15,695,777,487 | 14,618,598,516 |
| Less: Dividends paid during the year | (10,320,871,217) | (6,766,300,000) |
| | 5,374,906,270 | 7,852,298,516 |
| Add: Operating surplus for the year | - | 7,843,478,971 |
| Balance as at 30 June | <u>5,374,906,270</u> | <u>15,695,777,487</u> |

The Bank is owned by the Government through the Ministry of Finance. It is expected to remit all profits earned during the year as dividends to the Ministry subject to having fulfilled the required threshold for its General reserves (Note 26).

24. Employee benefits

(a) Movements in the present value of defined benefit obligations (DBO)

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|--|---------------------------|---------------------------|
| Defined Benefit Obligations (DBO) at beginning of the year | 154,882,403 | 70,954,611 |
| Current service costs | 23,654,892 | 7,939,743 |
| Interest cost | 20,026,295 | 9,082,190 |
| Past service cost | - | - |
| Remeasurements generated during the period | 14,223,404 | 6,112,414 |
| Payments/Settlements in the year | (40,962,062) | (17,613,579) |
| Included in profit or loss | 171,824,932 | 76,475,379 |
| Actuarial losses/ (gains) recognized in other comprehensive income | <u>2,807,931</u> | <u>78,407,024</u> |
| Defined Benefit Obligations (DBO at the end of the year) | <u>174,632,863</u> | <u>154,882,403</u> |

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

(b) Actuarial losses/ (gains) recognized in other comprehensive income

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-----------------------------|--------------------------|--------------------------|
| Cumulative amount at 1 July | 54,884,845 | 133,291,869 |
| Recognized during the year | (2,807,931) | (78,407,024) |
| Actuarial losses/(gains) | <u>52,076,914</u> | <u>54,884,845</u> |

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24. Employee benefits (continued)

(c) Actuarial assumptions

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

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|----------------------------------|---------------------|---------------------|
| Discount rate | 12.93% | 12.20% |
| Salary increase rate | 15.00% | 14.00% |
| Long term inflation rate | 11.00% | 10.00% |
| Long term medical inflation rate | 12.50% | 12.50% |

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 post-employment benefits pay-outs.

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 2021 by the amounts shown below:

Sensitivity analysis:

| | 30 June 2021 | | 30 June 2020 | |
|---------------------------------------|---------------------|-----------------|---------------------|-----------------|
| | Increase | Decrease | Increase | Decrease |
| Discount rate (0.50% movement) | 315,570.00 | (1,593,023.00) | (7,555,433) | 8,501,175 |
| Salary increase rate (1.00% movement) | 747,420.00 | (2,724,825.00) | 6,719,635 | (5,766,827) |

The above sensitivity analysis has been determined based on reasonably possible changes on the actuarial assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

25. Other liabilities

Other liabilities as of the reporting dates are as follows:

| | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-------------------|----------------------|----------------------|
| Letters of Credit | 805,376,625 | 2,223,051,354 |
| Accounts payable | 621,264,659 | 375,234,618 |
| Sundry creditors | 521,131,320 | 55,107,672 |
| | <u>1,947,772,604</u> | <u>2,653,393,644</u> |

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26. Capital and other reserves

(a) Capital

Capital is defined in the NBE proclamation No. 591/2008 and has been set at ETB 500 M (2019: ETB 500 M) as per parliamentary mandate. Any changes in the Capital are determined through review of economic policy issues and the need to manage macro-economic policy issues and maintain market stability.

Capital is meant to act as a risk management tool and covers the Bank against any risk and also prevents insolvency. The Bank is wholly owned by the Government of the Federal Democratic Republic of Ethiopia.

(b) General reserve

The General Reserve is a statutory reserve and is defined in the NBE proclamation No. 591/2008. The Balance of this reserve is dependent on the Capital amount. The proclamation defines that 20% (twenty percent) of the net profit shall be paid each financial year into the General reserve fund until the fund equals the paid-up capital of the National Bank. The remaining 80% (eighty percent) shall be credited to the account of the Ministry of Finance (MOF).

Where the General reserve fund equals the paid-up capital of the Bank, the total amount of the net profit shall be credited each financial year to the account of the Ministry of Finance (MOF). Net losses of the National Bank shall be debited to the General reserve fund. If at any time, as a result of net losses sustained by the Bank, the General reserve fund is less than the paid-up capital, the fund is replenished as per proclamation guidance until it equals the paid-up capital.

The General Reserve has been below the current Capital account balance of ETB 500M. Therefore, further transfers to this reserve are required.

(c) International reserve valuation

This reserve was set up to absorb foreign currency gains and losses during translation. The NBE proclamation and parliamentary directives have not set any limits or thresholds for this reserve.

The balance of this reserve account is not available for distribution since it relates to unrealized effects from foreign currency translations.

(d) Retained earnings

This reserve acts as a temporary reserve. The proclamation states that 20% of annual profits be transferred to the General reserve till it match the Capital. After this limit has been reached, all profits earned during the year are transferred to the Ministry of Finance (MOF) as dividends.

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26. Capital and other reserves (continued)

(e) Fair value reserve

This reserve comprises the cumulative net change in the fair value changes investment securities and monetary gold. All unrealized gains and losses are recognized in other comprehensive income and credited to the fair value reserve until the investment is derecognized or impaired. This reserve is not available for distribution.

(f) Defined benefit reserve

This reserve represents the present value of the defined benefit obligation that the Bank has set aside to enable pay-out of employees' long-term and post-employment liabilities as they fall due. This reserve is not available for distribution.

(g) Other reserve

This reserve arises from the IFRS transition adjustments. This reserve is not available for distribution.

27. Financial risk review

The Bank is involved in policy-oriented activities including targeted inflationary monetary policy using monetary controlling instruments. With this regard, the Bank's risk management framework differs from the risk management frameworks for commercial banks because of the difference in their perspective objectives and the nature of assets and liabilities. The Bank's overall risk management programme focuses on the Bank's role of maintaining price and exchange rate stability and supporting sustainable economic growth.

The Bank is exposed to a wide array of risks such as foreign currency liquidity, credit, foreign exchange rate, interest rate and gold price movement risks. Financial risk management requires identifying sources of risks, measuring of risks, and designing and implementing appropriate risk management tools, techniques and structure.

The Financial risks have been measured using foreign exchange liquidity gap, interest sensitive asset-liability gap, single foreign currency asset-liability open positions, and credit risk exposure measurement techniques. The major sources of Bank's financial risks are mismatches of assets and liabilities, counter party failure to repay the balances, changes in foreign exchange and interest rate as well as movement in gold prices.

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27. Financial risk review (continued)

The responsibility for risk management is decentralized and is carried out by the different directorates with the Board of Directors providing oversight role. A Risk management team is responsible for advising the management on the monitoring and management of all risks that the Bank faces. The Internal Audit and Risk Management Directorate (IAMRD) is responsible for the development and regular update of the Risk Management Framework. The Directorate regularly reviews and monitors the implementation and effectiveness of the risk management process, including the development of an appropriate risk management culture across the Bank.

The main financial risks to which the Bank is exposed include:

a.) Financial risks include:

i. Credit risk

ii. Market risks including: Interest rate risk; Gold commodity price risk and Foreign exchange risk

b.) Liquidity risk

c.) Non-financial risks include:

- Operational risk
- Human resource risk
- Reputational risk
- Cyber security risk assessment

i.) Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligation to the Bank. Credit risk could result from complete or partial failure of the counterparties to fulfill their contractual financial obligations with the Bank in accordance with agreed terms or from change in credit quality.

Credit risk exposures arise from investment securities, balances due from banking institutions, funds held with IMF, loans, and advances as well as other assets. The Bank has no significant concentrations of credit risk except for the securities relating to Government of Ethiopia.

Management of credit risk is through a choice of depository banks. The Bank's choice of depository banks is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating (A), short-term credit rating (F1), composite rating and capital adequacy.

The amount that best represents the Bank's maximum exposure to credit risk is per the statement of financial position.

The Bank assesses the credit quality of these assets. None of the balances have had their terms renegotiated as a result of non-performance. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors.

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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments the amounts in the table represent the amounts committed.

30 June 2021

| | 30 June 2021 | | | Total |
|---|------------------------|----------------|------------------|------------------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Financial assets | | | | |
| Balances due from foreign entities – commercial banks | 28,145,553,570 | - | - | 28,145,553,570 |
| Balances due from foreign entities – Central banks | 94,285,262,858 | - | - | 94,285,262,858 |
| Cash - foreign currencies | 1,527,579,239 | - | - | 1,527,579,239 |
| Funds held with IMF | 527,514,382 | - | - | 527,514,382 |
| Loans to government banks | 171,403,158,255 | - | - | 171,403,158,255 |
| Loans to private commercial banks | 1,695,803,883 | - | - | 1,695,803,883 |
| Other assets – Staff loans | 56,949,010 | - | 391,835 | 57,340,845 |
| Other assets – Staff advances | 395,351 | 125,617 | 839,543 | 1,360,511 |
| Due from Government of Ethiopia | 295,446,886,895 | - | - | 295,446,886,895 |
| Total gross exposure | 593,089,103,443 | 125,617 | 1,231,378 | 593,090,460,438 |
| Loss allowance | (2,056,112,164) | (1,003) | (1,231,378) | (2,057,344,545) |
| Carrying amount | 591,032,991,279 | 124,614 | - | 591,033,115,893 |

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27. Financial risk review (continued)
- a.) Financial risks (continued)
- i.) Credit risk (continued)

Credit quality analysis

| | 30 June 2020 | | | Total |
|---|------------------------|--------------|------------------|------------------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Financial assets | | | | |
| Balances due from foreign entities – commercial banks | 20,658,381,883 | - | - | 20,658,381,883 |
| Balances due from foreign entities – Central banks | 81,958,441,772 | - | - | 81,958,441,772 |
| Cash - foreign currencies | 4,381,892,903 | - | - | 4,381,892,903 |
| Funds held with IMF | 567,343,714 | - | - | 567,343,714 |
| Loans to government banks | 169,583,439,504 | - | - | 169,583,439,504 |
| Loans to private commercial banks | 34,413,090 | - | - | 34,413,090 |
| Other assets – Staff loans | 46,399,427 | - | 145,133 | 46,544,560 |
| Other assets – Staff advances | 151,048 | 8,664 | 968,216 | 1,127,928 |
| Due from Government of Ethiopia | 243,652,143,972 | - | - | 243,652,143,972 |
| Total gross exposure | 520,882,607,313 | 8,664 | 1,113,349 | 520,883,729,326 |
| Loss allowance | (796,681,501) | (60) | (1,113,349) | (797,794,910) |
| Carrying amount | 520,085,925,812 | 8,604 | - | 520,085,934,416 |

Impairment of loans is recognised - on an individual or collective basis - in three stages under IFRS 9. Stage 1 refers to default events that are possible within the next 12 months from loan origination. Stage 2 refers to significant increase in credit risk since initial recognition. Stage 3 refers to an increase in a loan's credit risk to the point where it is considered credit impaired. Further explanations on the approaches to staging are included in Note 3 (b).

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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

Credit Risk Exposure

Credit Risk Exposure by Credit Rating

The table below shows the credit ratings by rating agencies for the different counterparties that the Bank engages with and denotes the credit quality of financial assets traded with these entities.

| No | List of Correspondent Banks – Current Accounts Balances | Type of Institution | Credit Ratings as of 30 June 2021 | | |
|----|--|------------------------|-----------------------------------|-----|---------|
| | | | Fitch | S&P | Moody's |
| 1 | Federal Reserve Bank | Central Bank | AAA | AA+ | Aaa |
| 2 | BIS Basel | Central Bank | AAA | AAA | Aaa |
| 3 | Bank of England | Central Bank | AA- | AA | Aa3 |
| 4 | Deutsche Bundesbank | Central Bank | A- | A- | A1 |
| 5 | Banca D'Italia | Central Bank | BBB | BBB | Baa2 |
| 6 | Banque Nati De Belgique | Central Bank | AA- | A- | A2 |
| 7 | Commerzbank | Commercial Bank | BBB | A- | A1 |
| 8 | Citibank New York | Commercial Bank | AA- | A+ | Aa3 |
| 9 | Bank of Tokyo | Commercial Bank | A- | A | A1 |
| 10 | JP Morgan Chase Bank | Commercial Bank | AA | A+ | A2 |
| 11 | National Westminster | Commercial Bank | A+ | A | A-1 |
| 12 | Standard Chartered Bank, London | Commercial Bank | A+ | A+ | A1 |
| 13 | Nordea Bank | Commercial Bank | AA- | A- | A2 |

a.) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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 and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The Bank assesses significant increase in credit risk at portfolio level, of which the definition varies based on the asset type and contractual obligation of the counterparty.

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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

a.) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

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 average time between the identification of a significant increase in credit risk and default appears reasonable;
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

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 realizing security (if any is held);
- A counterparty goes into delinquency, liquidation or forbearance;
- For short – term loans, the borrower is in arrears beyond the contractual maturity date; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

- Qualitative: e.g. breaches of covenant and liquidation;
- Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank due to credit distress; and
- based on data sourced 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.

National Bank of Ethiopia
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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

a.) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of exposures has increased significantly since its initial recognition and the measurement of ECL. Internal information considered in forward-looking ECL estimates includes macro-economic data and forecasts by NBE's Economic Modeling and Statistical Analysis Directorate. This is in addition to historical sovereign local currency 12-month default rates for, B-Negative rated entities. 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 and, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Bank formulates three economic scenarios: a base case, which is the median scenario, and two less likely scenarios, one upside and one downside. The base case scenario is primarily aligned with the macroeconomic model's information value output which is a measure of the predictive power of the model as well as base macroeconomic projections for identified macroeconomic variables. The upside and downside scenarios are based on a combination of a percentage error factor as well as simulated optimistic and pessimistic macroeconomic projections based on a measure of historical macroeconomic volatilities. The Bank also applies qualitative management adjustments to the scenario weighting based on economic outlook.

In line with the expected, as well as experienced, Expected Credit Loss forward-looking volatility arising from the economic impact of the COVID 19 global crisis, the Bank has analysed and applied additional scenario analysis as well as stress tests to the macroeconomic overlay model. This includes application of stress tests on the downside scenario macroeconomic projections as well as qualitative adjustments to the base, upside and downside scenario weights. The Bank continues to monitor the economic impact of COVID 19 on its credit risk profile as well as forward-looking Expected Credit Loss estimates and shall effect updates to its IFRS 9 forward-looking estimates as and when significant changes in the overall macroeconomic environment are experienced.

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Notes to the Financial Statements
For the year ended 30 June 2021
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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

a.) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

The key drivers for credit risk for each of the Bank's economic sectors are summarized below:

| Financial year ended | Macro Economic Factors | | | | | Inflation |
|----------------------|---|---------------------------|--------------------------------------|--------------|---------------------------|--|
| | GDP | Fiscal | Exchange rate | Money supply | Debt | |
| 30 June 2021 | -GDP EXPENDITURE: Savings, USDbn | Total expenditure, USDbn | - | - | -Total debt service ETBbn | -Consumer price index, 2010 = 100, ave |
| 30 June 2020 | -Nominal GDP; ETB bn -Exports of goods and services, ETBbn | -Total expenditure, USDbn | -Real effective exchange rate; index | -M2, ETBbn | - | - |

The macroeconomic data used as at 30 June 2021 included the following key indicators for Ethiopia for the years 2021 to 2022:

| Macro Economic Factor | 30 June 2021 | 30 June 2022 |
|--|--------------|--------------|
| GDP EXPENDITURE: Savings, USDbn | 27.40 | 32.10 |
| FISCAL: Total expenditure, USDbn | 15.35 | 16.04 |
| DEBT SERVICE: Total debt service ETBbn | 73.1 | 105.2 |
| INFLATION: Consumer price index, 2010 = 100, ave | 218.6 | 292.9 |

Predicted relationships between the key macroeconomic indicators and 12 – month sovereign default rates have been developed based on analysing annual historical data over the past 9 years.

The following are probability weightings applied in the forward - looking scenario analysis as at June 2021

| | Upside | Median (Central) | Downside |
|--------------|--------|------------------|----------|
| 30 June 2021 | 10% | 70% | 20% |

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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

a.) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Modified financial assets

The contractual terms of a financial asset 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 facility whose terms have been modified may be derecognised and the renegotiated loan recognised as a new facility at fair value in accordance with the accounting policy set out in Note 3 (a (IV)).

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:

- The rationale for modification; with
- The Bank's assessment of available and supportable information with regards to the counterparty's credit risk profile prior to and after modification.

When modification results in derecognition, a new facility is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank may renegotiate loans to banks 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 covenants.

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 (see Note 3 (a (viii))). A Counterparty 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 Stage 1.

National Bank of Ethiopia
Notes to the Financial Statements
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27. Financial risk review (continued)

a.) Financial risks (continued)

i.) Credit risk (continued)

a.) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

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).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading ‘Generating the term structure of PD’.

LGD is the magnitude of the likely loss if there is a default. The Bank primarily estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD is measured at segment level. For segments with no previous default experience, the Bank applies a minimum LGD approach, benchmarking against the Basel internal ratings – based measurement approach.

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 and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, 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 credit risk management purposes, the Bank considers a longer period.

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 primarily include risk assessment of the Bank’s counterparties.

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

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

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Notes to the Financial Statements
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27. Financial risks (continued)

a. Financial risks (continued)

i.) Credit risk (continued)

a.) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Measurement of ECL

| Segment | Exposure ETB | External rating used | |
|------------------------|-----------------|----------------------|-------|
| | | PD | LGD |
| Government | 295,446,886,895 | S&P default studies | Basel |
| Government banks | 171,403,158,255 | S&P default studies | Basel |
| Foreign deposits | 122,958,331,947 | S&P default studies | Basel |
| Local commercial banks | 1,695,803,870 | Basel | Basel |

| No | List of Active Depository Banks | Type of Institution | Credit Ratings as of 30 June 2021 | | |
|----|---------------------------------|---------------------|-----------------------------------|-----|---------|
| | | | Fitch | S&P | Moody's |
| 1 | Commercial Bank of Ethiopia | Commercial Bank | NR | NR | NR |

ii.) Market risk

'Market risk' is the risk that changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads – will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

Market risks arise from open positions in interest rate, currency and equity prices, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

Equity price risk

Equity price risk refers to the potential loss in fair value resulting from adverse changes in the fair value of stocks that the Bank has invested in. Equity price risk is subject to regular monitoring but is not currently significant in relation to the Bank's overall results and financial position.

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Notes to the Financial Statements
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27. Financial risk review (continued)

a.) Financial risks (continued)

ii.) Market risk (continued)

Interest rate risk

Interest rate risk is the exposure of the Bank's financial assets and liabilities to adverse movements in interest rates. If unexpected changes arise in interest rates, there is a possibility of loss due to sensitivity of the Bank's assets and liabilities to rate variability.

The main source of the Bank's interest rate risk is re-pricing risk. Bank's interest-bearing assets and liabilities may be re-priced at different times and rates. The Bank's foreign currency reserve may be exposed to foreign currency interest rate risk when the adjustment of the rates earned and paid on different instruments are re-priced. When interest rates change, these differences can change the cash flows and spread between foreign assets and foreign liabilities of similar maturities or re-pricing frequencies.

The Bank measures its interest rate exposure using a maturity/re-pricing schedule that distributes interest-sensitive assets and liabilities into "time-bands" according to their maturity or time remaining to their next re-pricing. The size of the gap for a given time band (assets less liabilities that re-price or mature within that time band) gives an indication of the Bank's re-pricing risk exposure.

The Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for interest rate fluctuations. The Foreign Exchange Monitoring and Reserve Management (FEMRMD) Directorate is the monitoring body for compliance within these limits. These day-to-day activities include monitoring changes in the Bank's interest rate exposures, which include the impact of the Bank's outstanding or forecast debt obligations.

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27. Financial risk review (continued)
a.) Financial risks (continued)
ii.) Market risk (continued)

Interest rate risk

The following is a summary of the Bank's interest rate risk gap position on financial instruments. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

| 30 June 2021 | 1 - 3 months | | 3 - 12 months | | 1 - 5 years | | Over 5 years | | Non-interest-bearing | | Total | |
|---|--------------|------------------------|---------------|------------------------|-------------|------------------------|--------------|--------------------------|------------------------|------------------------|-------|----------------|
| | ETB | | ETB | | ETB | | ETB | | ETB | | ETB | |
| Financial assets | | | | | | | | | | | | |
| Due from Government of Ethiopia | - | 942,888,361 | - | 92,540,683,174 | - | 195,703,004,628 | - | 4,960,391,902 | - | 294,146,968,065 | - | |
| Loans to government banks | - | 8,058,682,105 | - | 72,217,631,835 | - | 90,372,697,960 | - | | - | 170,649,011,900 | - | |
| Loans to private commercial banks | - | 1,695,719,093 | - | | - | | - | | - | 1,695,719,093 | - | |
| Due from foreign institutions - commercial Banks | - | 28,144,049,258 | - | | - | | - | | - | 28,144,049,258 | - | |
| Due from foreign institutions - central Banks | - | 94,285,262,858 | - | | - | | - | | - | 94,285,262,858 | - | |
| Funds held with IMF | - | - | - | 527,514,382 | - | | - | | - | 527,514,382 | - | |
| Other assets - Uncleared effects | - | - | - | | - | | - | | 5,128,849 | 5,128,849 | - | |
| Other assets - Loans to employees | - | 56,494,289 | - | | - | | - | | | 56,494,289 | - | |
| Other assets - Staff advances | - | 516,808 | - | | - | | - | | | 516,808 | - | |
| Total financial assets | - | 133,183,612,772 | - | 165,285,829,391 | - | 286,075,702,588 | - | 4,965,520,751 | - | 589,510,665,502 | - | |
| Financial liabilities | | | | | | | | | | | | |
| Deposits from banks & government | - | | - | | - | | - | | 317,517,568,532 | 317,517,568,532 | - | |
| Funds due to international financial institutions | - | 57,665,508,321 | - | | - | | - | | | | - | 57,665,508,321 |
| Due to other institutions | - | | - | | - | | - | | 88,038,683,383 | 88,038,683,383 | - | |
| Total financial liabilities | - | 57,665,508,321 | - | | - | | - | | 405,556,251,915 | 463,221,760,236 | - | |
| Interest rate risk sensitivity gap | - | 75,518,104,451 | - | 165,285,829,391 | - | 286,075,702,588 | - | (400,590,731,164) | - | 126,288,905,266 | - | |

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27. Financial risk review (continued)

a.) Financial risks (continued)

ii.) Market risk (continued)

Interest rate risk

| 30 June 2020 | 1 – 3 months | | 3 – 12 months | | 1 – 5 years | | Over 5 years | | Non-interest-bearing | | Total | |
|---|--------------|---|------------------------|------------------------|------------------------|---|--------------|--------------------------|------------------------|--|-------|--|
| | ETB | | ETB | | ETB | | ETB | | ETB | | ETB | |
| Financial assets | | | | | | | | | | | | |
| Due from Government of Ethiopia | - | - | 942,894,717 | 59,925,708,672 | 176,582,631,660 | - | - | 5,734,502,901 | 243,185,737,950 | | | |
| Loans to government banks | - | - | 5,068,031,545 | 164,190,786,407 | - | - | - | - | 169,258,817,952 | | | |
| Loans to private commercial banks | - | - | 34,413,090 | - | - | - | - | - | 34,413,090 | | | |
| Due from foreign institutions - commercial Banks | - | - | 20,653,052,148 | - | - | - | - | - | 20,653,052,148 | | | |
| Due from foreign institutions - central Banks | - | - | 81,958,441,772 | - | - | - | - | - | 81,958,441,772 | | | |
| Funds held with IMF | - | - | - | 567,343,715 | - | - | - | - | 567,343,715 | | | |
| Other assets – Uncleared effects | - | - | - | - | - | - | - | 5,196,172 | 5,196,172 | | | |
| Other assets - Loans to employees | - | - | 46,076,289 | - | - | - | - | - | 46,076,289 | | | |
| Other assets - Staff advances | - | - | 158,599 | - | - | - | - | - | 158,599 | | | |
| Total financial assets | - | - | 108,703,068,160 | 224,683,838,794 | 176,582,631,660 | - | - | 5,739,699,073 | 515,709,237,687 | | | |
| Financial liabilities | | | | | | | | | | | | |
| Deposits from banks and government | - | - | - | - | - | - | - | - | 267,432,190,177 | | | |
| Funds due to international financial institutions | - | - | 44,305,871,855 | - | - | - | - | - | 44,305,871,855 | | | |
| Due to other institutions | - | - | - | - | - | - | - | 70,480,701,572 | 70,480,701,572 | | | |
| Total financial liabilities | - | - | 44,305,871,855 | 224,683,838,794 | 176,582,631,660 | - | - | (332,173,192,676) | 133,490,474,083 | | | |
| Interest rate risk sensitivity gap | - | - | 64,397,196,305 | 224,683,838,794 | 176,582,631,660 | - | - | (332,173,192,676) | 133,490,474,083 | | | |

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27. Financial risk review (continued)
a.) Financial risks (continued)
ii.) Market risk (continued)

Interest rate risk sensitivity analysis

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase or decrease as a result of such changes which may cause either an increase or decrease in profit or loss. The impact on financial assets and liabilities of an increase or decrease in interest rates by 0.5 percent would be as follows:

| 30 June 2021 | Effect on Profit/Loss | | Effect on Equity | |
|---|------------------------------|------------------------|-------------------------|------------------------|
| | 0.5% increase | 0.5% decrease | 0.5% increase | 0.5% decrease |
| Financial Instruments | | | | |
| Financial assets | | | | |
| Loans to employees | 293,507 | (293,507) | 293,507 | (293,507) |
| Due from Government of Ethiopia | 1,414,027,667 | (1,414,027,667) | 1,414,027,667 | (1,414,027,667) |
| Loans to government institutions | 857,015,791 | (857,015,791) | 857,015,791 | (857,015,791) |
| Due from foreign institutions - central Banks | 474,063,886 | (474,063,886) | 474,063,886 | (474,063,886) |
| Loans to private commercial banks | 8,479,019 | (8,479,019) | 8,479,019 | (8,479,019) |
| Due from foreign institutions - commercial Banks | 140,727,768 | (140,727,768) | 140,727,768 | (140,727,768) |
| Total assets (ETB) | 2,894,607,638 | (2,894,607,638) | 2,894,607,638 | (2,894,607,638) |
| Financial liabilities | | | | |
| Due to local financial institutions, Government and governmental agencies | (1,587,587,843) | 1,587,587,843 | (1,587,587,843) | 1,587,587,843 |
| Due to other institutions | (440,193,417) | 440,193,417 | (440,193,417) | 440,193,417 |
| Total liabilities (ETB) | (2,027,781,260) | 2,027,781,260 | (2,027,781,260) | 2,027,781,260 |
| Net interest (increase)/ decrease | 866,826,378 | (866,826,378) | 866,826,378 | (866,826,378) |
| Impact on profits | 866,826,378 | (866,826,378) | 866,826,378 | (866,826,378) |

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27. **Financial risk review (continued)**
- a.) **Financial risks (continued)**
- ii.) **Market risk (continued)**

Interest rate risk sensitivity analysis (continued)

| 30 June 2020 | Effect on Profit/Loss | | Effect on Equity | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 0.5% increase | 0.5% decrease | 0.5% increase | 0.5% decrease |
| Financial Instruments | | | | |
| Financial assets | | | | |
| Loans to employees | 238,362 | (238,362) | 238,362 | (238,362) |
| Due from Government of Ethiopia | 1,155,903,199 | (1,155,903,199) | 1,155,903,199 | (1,155,903,199) |
| Loans to government institutions | 849,862,677 | (849,862,677) | 849,862,677 | (849,862,677) |
| Due from foreign institutions - central Banks | 438,997,089 | (438,997,089) | 438,997,089 | (438,997,089) |
| Loans to private commercial banks | 172,065 | (172,065) | 172,065 | (172,065) |
| Due from foreign institutions - commercial Banks | 105,783,729 | (105,783,729) | 105,783,729 | (105,783,729) |
| Total assets (ETB) | 2,550,957,121 | (2,550,957,121) | 2,550,957,121 | (2,550,957,121) |
| Financial liabilities | | | | |
| Due to local financial institutions, Government and governmental agencies | (1,337,160,951) | 1,337,160,951 | (1,337,160,951) | 1,337,160,951 |
| Due to other institutions | (352,403,508) | 352,403,508 | (352,403,508) | 352,403,508 |
| Total liabilities (ETB) | (1,689,564,459) | 1,689,564,459 | (1,689,564,459) | 1,689,564,459 |
| Net interest (increase)/ decrease | 861,392,662 | (861,392,662) | 861,392,662 | (861,392,662) |
| Impact on profits | 861,392,662 | (861,392,662) | 861,392,662 | (861,392,662) |

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27. Financial risk review (continued)

a.) Financial risks (continued)

ii.) Market risk (continued)

Foreign Exchange rate risk

Foreign exchange rate fluctuation risk is the risk of adverse movements in exchange rates that will result in a decrease in value of foreign exchange assets or an increase in the value of foreign currency liabilities. Foreign exchange fluctuations expose the Bank to changes in the amounts of foreign assets and liabilities held by the Bank. The Bank measures its foreign exchange risk using a single foreign currency open position based on balance sheet amounts in spot markets. It is a risk of volatility due to a mismatch and adverse exchange rate movements during a period in which it has an open balance sheet position in an individual foreign currency.

The mid-exchange rate of major currencies against the Ethiopian Birr at each year end was as follows;

| Currency | 30 June 2021 | 30 June 2020 |
|------------------------------|--------------|--------------|
| US dollar (USD) | 43.91 | 35.16 |
| Great Britain Pound (GBP) | 60.74 | 43.31 |
| EURO | 52.26 | 39.67 |
| Special drawing rights (SDR) | 62.73 | 48.46 |
| Ounce of Gold (XAU) | 77,667.04 | 62,300.94 |
| Norwegian Krone (NOK) | 5.12 | 3.64 |
| Japanese Yen (JPY) | 0.40 | 0.33 |

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27. Financial risk review (continued)
a.) Financial risks (continued)
ii.) Market risk (continued)

Foreign Exchange risk (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 30 June 2021. Included in the table are the Bank's financial instruments categorized by currency:

| | USD | GBP | EUR | SDR | XAU | NOK | JYP | Others | Total |
|---|--------------------------|----------------------|------------------------|-------------------------|------------|---------------------|-------------------|---------------------|--------------------------|
| | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB |
| At 30 June 2021 | | | | | | | | | |
| Assets | | | | | | | | | |
| Due from foreign institutions - commercial Banks | 25,354,928,689 | 2,693,283,594 | 67,407,942 | - | 621 | 206,531 | 29,727,952 | (1,759) | 28,145,553,570 |
| Due from foreign institutions - central Banks | 92,597,747,610 | 1,214,892,990 | 3,304,210 | - | - | - | - | 469,318,049 | 94,285,262,859 |
| Funds held with IMF | - | - | - | 527,514,382 | - | - | - | - | 527,514,382 |
| Foreign currencies | 1,444,145,218 | 30,592,647 | 32,716,170 | - | - | - | 3,971,000 | 16,154,204 | 1,527,579,239 |
| Total financial assets | 119,396,821,517 | 3,938,769,231 | 103,428,322 | 527,514,382 | 621 | 206,531 | 33,698,952 | 485,470,494 | 124,485,910,050 |
| Liabilities | | | | | | | | | |
| Deposits from banks and government | (55,982,140,030) | (107,533,751) | (5,781,932,911) | - | - | (24,390,987) | - | - | (61,895,997,679) |
| Funds due to international financial institutions | - | - | - | (16,451,759,126) | - | - | - | - | (16,451,759,126) |
| Due to other institutions | (87,819,000,000) | - | (209,062,547) | - | - | - | - | (10,620,836) | (88,038,683,383) |
| Total financial liabilities | (143,801,140,030) | (107,533,751) | (5,990,995,458) | (16,451,759,126) | - | (24,390,987) | - | (10,620,836) | (166,386,440,188) |
| Net position | (24,404,318,513) | 3,831,235,480 | (5,887,567,136) | (15,924,244,744) | 621 | (24,184,456) | 33,698,952 | 474,849,658 | (41,900,530,138) |

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27. Financial risk review (continued)

a.) Financial risks (continued)

ii.) Market risk (continued)

Foreign Exchange risk (continued)

| | USD | | GBP | | EUR | | SDR | | XAU | | NOK | | JYP | | Others | | Total | | |
|---|--------------------------|-----|----------------------|-----|------------------------|-----|-------------------------|-----|--------------------|-----|---------------------|-----|-------------------|-----|--------------------|-----|-------|--------------------------|--|
| | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | |
| At 30 June 2020 | | | | | | | | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | | | | | | | | |
| Due from foreign institutions - commercial Banks | 18,400,406,283 | | 1,723,208,595 | | 22,704,162 | | - | | 498,431,727 | | 146,663 | | 13,484,338 | | 114 | | | 20,658,381,882 | |
| Due from foreign institutions - central Banks | 81,089,904,975 | | 866,139,255 | | 2,397,542 | | - | | - | | - | | - | | - | | | 81,958,441,772 | |
| Funds held with IMF | - | | - | | - | | 567,343,714 | | - | | - | | - | | - | | | 567,343,714 | |
| Foreign currencies | 4,159,984,642 | | 33,694,619 | | 114,609,592 | | - | | - | | 185,046 | | - | | 73,419,005 | | | 4,381,892,904 | |
| Total financial assets | 103,650,295,900 | | 2,623,042,469 | | 139,711,296 | | 567,343,714 | | 498,431,727 | | 331,709 | | 13,484,338 | | 73,419,119 | | | 107,566,060,272 | |
| Liabilities | | | | | | | | | | | | | | | | | | | |
| Deposits from banks and government | (41,835,597,783) | | (3,919,037) | | (2,225,175,136) | | - | | - | | (32,966,186) | | - | | - | | | (44,097,658,142) | |
| Funds due to international financial institutions | - | | - | | - | | (12,912,710,150) | | - | | - | | - | | - | | | (12,912,710,150) | |
| Due to other institutions | (70,314,200,000) | | - | | (158,699,247) | | - | | - | | - | | - | | (7,802,325) | | | (70,480,701,572) | |
| Total financial liabilities | (112,149,797,783) | | (3,919,037) | | (2,383,874,383) | | (12,912,710,150) | | - | | (32,966,186) | | - | | (7,802,325) | | | (127,491,069,864) | |
| Net position | (8,499,501,883) | | 2,619,123,432 | | (2,244,163,087) | | (12,345,366,436) | | 498,431,727 | | (32,634,477) | | 13,484,338 | | 65,616,794 | | | (19,925,009,592) | |

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27. Financial risk review (continued)

a.) Financial risks (continued)

ii.) Market risk (continued)

The table below shows the result of a sensitivity analysis demonstrating the effect of the ETB weakening/strengthening by 10% against all the major currencies with all other variables held constant on the profit or loss and equity. A negative amount in the table reflects a potential net reduction in profit or loss and equity while a positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the ETB would have resulted in an equivalent but opposite impact:

| Financial Instruments | Effect on Profit/Loss | | Effect on Equity | |
|-------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| | 10% increase (Weakening) | 10% decrease (Strengthening) | 10% increase (Weakening) | 10% decrease (Strengthening) |
| 30 June 2021 | | | | |
| Financial assets | 12,448,591,004 | (12,448,591,004) | 12,448,591,004 | (12,448,591,004) |
| Financial liabilities | (16,638,644,020) | 16,638,644,020 | (16,638,644,020) | 16,638,644,020 |
| Net Impact (ETB) | (4,190,053,016) | 4,190,053,016 | (4,190,053,016) | 4,190,053,016 |
| 30 June 2020 | | | | |
| Financial assets | 10,806,942,635 | (10,806,942,635) | 10,806,942,635 | (10,806,942,635) |
| Financial liabilities | (12,749,106,987) | 12,749,106,987 | (12,749,106,987) | 12,749,106,987 |
| Net Impact (ETB) | (1,942,164,352) | 1,942,164,352 | (1,942,164,352) | 1,942,164,352 |

Gold commodity price risk

Gold commodity price risk is the risk that gold commodity prices will change adversely. It refers to uncertainties of future market values and size of the future income, caused by fluctuations in the prices of gold commodities. The Bank as part of its operations, is responsible for purchase and sale of gold commodities. Gold by nature is subject to price fluctuation risk. The average gold per ounce for the last 1 year and the effect of a 10% change in the same on profit/loss and equity are shown below:

| Period | Average price of gold/Ounce | Effect on Profit/Loss | | Effect on Equity | |
|--------------|-----------------------------|-----------------------|--------------|------------------|--------------|
| | | 10% increase | 10% decrease | 10% increase | 10% decrease |
| 30 June 2021 | ETB 77,280.64 | 7,728 | (7,728) | 7,728 | (7,728) |
| 30 June 2020 | 61,990.94 | 6,199 | (6,199) | 6,199 | (6,199) |

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27. Financial risk review (continued)

b.) Liquidity risk (continued)

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset in a timely manner at reasonable prices. Some liabilities in the Bank's books have no fixed maturity including Currency in circulation and Domestic currency deposits from banks, insurance companies and Government and governmental agencies.

Liquidity risk represents the potential loss to the Bank if it is unable to settle its financial obligations as they fall due and is represented through a maturity mismatch assessment between foreign exchange assets and liabilities.

This risk emanates from the nature of banking business, from the macro factors that are exogenous to the Bank, as well as from financing and operational policies that are internal to the Bank.

In Ethiopian Birr, there is no liquidity risk as the Bank is able to create Birr liquidity through its market operations.

For foreign currency, in addition to holding appropriate cash balances, the Bank manages liquidity through holding a portfolio of liquid foreign exchange reserves.

The Foreign Exchange Monitoring and Reserve Management Directorate (FEMRMD) monitors and reviews information on the Bank's liquidity developments and reports risk exposures and funding needs to the Executive Management on a regular basis. The FEMRMD mitigates its foreign currency liquidity risk by conducting detailed analysis of the maturities of foreign currency asset-liability gap size. The Bank sets limits, where appropriate, on liquidity metrics and employs monitoring and controlling of liquidity risk exposures for each maturity ladder.

The table below analyses the Bank's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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27. Financial risk review (continued)

b.) Liquidity risk

| At 30 June 2021 | Upto 12 months | 1 - 5 years | Over 5 years | Total |
|--|--------------------------|------------------------|------------------------|--------------------------|
| Assets | | | | |
| Due from Government of Ethiopia | 942,888,361 | 97,501,075,076 | 195,703,004,628 | 294,146,968,065 |
| Loans to government Banks | 8,058,682,105 | 72,217,631,835 | 90,372,697,960 | 170,649,011,900 |
| Loans to private commercial Banks | 1,695,719,093 | - | - | 1,695,719,093 |
| Due from foreign institutions - commercial Banks | 28,144,049,258 | | | 28,144,049,258 |
| Due from foreign institutions - central Banks | 94,285,262,858 | | | 94,285,262,858 |
| Funds held with IMF | - | 527,514,382 | | 527,514,382 |
| Other assets - Loans to employees | 56,494,289 | | | 56,494,289 |
| Other assets - Staff advances | 516,808 | | | 516,808 |
| Total financial assets | 133,183,612,772 | 170,246,221,293 | 286,075,702,588 | 589,505,536,653 |
| Liabilities | | | | |
| Deposits from local financial institutions, government and government institutions | (317,517,568,532) | | | (317,517,568,532) |
| Funds due to international financial institutions | (57,665,508,321) | | | (57,665,508,321) |
| Due to other institutions | (88,038,683,383) | | | (88,038,683,383) |
| Due to the Ministry of Finance | (5,374,906,270) | | | (5,374,906,270) |
| Other liabilities | (1,947,772,604) | | | (1,947,772,604) |
| Total financial liabilities | (470,544,439,110) | - | - | (470,544,439,110) |
| Net maturity difference | (337,360,826,338) | 170,246,221,293 | 286,075,702,588 | 118,961,097,543 |

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27. Financial risk review (continued)

b.) Liquidity risk (continued)

| At 30 June 2020 | Upto 12 months | 1 - 5 years | Over 5 years | Total |
|--|--------------------------|------------------------|------------------------|--------------------------|
| Assets | | | | |
| Due from Government of Ethiopia | 942,894,717 | 65,660,211,573 | 176,582,631,660 | 243,185,737,950 |
| Loans to government Banks | 5,068,031,545 | 164,190,786,407 | | 169,258,817,952 |
| Loans to private commercial Banks | 34,413,090 | - | | 34,413,090 |
| Due from foreign institutions - commercial Banks | 20,653,052,148 | | | 20,653,052,148 |
| Due from foreign institutions - central Banks | 81,958,441,772 | | | 81,958,441,772 |
| Funds held with IMF | - | 567,343,715 | | 567,343,715 |
| Other assets - Loans to employees | 46,076,289 | | | 46,076,289 |
| Other assets - Staff advances | 158,599 | | | 158,600 |
| Total financial assets | 108,703,068,160 | 230,418,341,695 | 176,582,631,660 | 515,704,041,515 |
| Liabilities | | | | |
| Deposits from local financial institutions, government and government institutions | (267,432,190,177) | | | (267,432,190,177) |
| Funds due to international financial institutions | (44,305,871,855) | | | (44,305,871,855) |
| Due to other institutions | (70,480,701,572) | | | (70,480,701,572) |
| Due to the Ministry of Finance | (15,695,777,487) | | | (15,695,777,487) |
| Other liabilities | (2,653,393,644) | | | (2,653,393,644) |
| Total financial liabilities | (400,567,934,735) | | | (400,567,934,735) |
| Net maturity difference | (291,864,866,575) | 230,418,341,695 | 176,582,631,660 | 115,136,106,780 |

National Bank of Ethiopia
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27. Financial risk review (continued)

c.) Non-financial risks

i.) Strategic risk

Strategic risk might arise from the deviation of monetary policy target, which may adversely affect the economy and the effectiveness of financial institutions in following set policies and directives, its monetary policy operations and supervisory activities and governance of financial institutions that determine stability of the financial sector.

The Bank manages its strategic risk by undertaking effective monetary policy which include; monitoring the country's exchange rate policy, conducting periodic economic studies, forecasting the balance of payments, money supply, prices and other relevant statistical indicators of the Ethiopian economy. These measures are useful in the analysis, formulation and determination of its monetary, saving and exchange policies.

Further, the Bank undertakes prudential onsite and offsite inspection and monitoring of the financial sector on a continuous basis that is aimed at ensuring the soundness of the country's financial system.

ii.) Operational risk

Operational risk is the financial and non-financial risk to the Bank that could result in financial loss, reputational damage or inability to achieve business objectives. This could arise from human errors, failure of internal processes, people and systems or from external events. Operational risks to the Bank includes: legal, security, business disruption, project management, human resource, IT systems and general business practices and fraud risks.

The Bank has made continuous efforts to minimize losses from operational risks by establishing effective internal control systems which prevent or detect all errors and situations which might cause losses through failure of people or processes. The work units of the Bank perform their activities based on their respective policies and procedures and take their own roles and responsibilities to manage operational risks emanating from their activities on their day to day business operations.

iii.) Cyber security risk

The Bank is exposed to cyber security risk. This is the inherent risk arising from technologies, processes and practices designed to protect the Bank's information assets, that is, computers, networks, programs and data from unauthorized access.

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Notes to the Financial Statements
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27. Financial risk review (continued)

c.) Non-financial risks (continued)

iii.) Cyber security risk (continued)

The Bank performs an assessment of this risk at two different levels of management to identify the potential risk and manage proactively to ensure the Bank's information security is safeguarded. At strategic management level, creating security policies dealing with people issues and evaluating threats and risks. Tactical management level deals with how the security systems are developed and implemented to meet policy requirements.

iv.) Reputational risk

This is the risk associated with the real or perceived loss of credibility and effectiveness as a result of negative publicity arising from a failure to comply with applicable laws or in managing risks, lack of fulfillment of roles and objectives or other external events.

It can be viewed as secondary since the reputational damage is usually caused by a loss or failure in the following areas: strategic; finance or operational risk.

The Bank has the responsibility to stabilize the value of money, the soundness and efficiency of the financial system and the issue of currency (Bank notes and coins). All of these matters have direct impact on all citizens; therefore, how the Bank communicates to the public is of critical importance to maintaining its credibility and in the successful fulfillment of its responsibilities.

In managing reputational risk, the Bank communicates to the public by crafting a consistent message regarding its role and policies and ensures that this message is effectively communicated to the public.

v.) Custodial risk on statutory deposits

The Bank is a custodian of government bonds and securities that are pledged by insurance companies as statutory deposits pursuant to the provisions of insurance business proclamation No. 746/2012. The Bank has a responsibility to keep the bond certificates safe to avoid any financial losses. As at 30 June 2021, the Bank held in its custody government bonds and securities worth ETB 978,920,475. These securities are recorded as off-balance sheet items.

To mitigate the risk, the Bank records and keeps all copies of statutory deposits certificates in its custody in secure vaults.

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28. Fair value of financial instrument

a. Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1:* Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- *Level 2:* Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects the effect of non-performance risk.

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.

Loans and advances to government, government institutions and staff are net of allowance for impairment. The estimated fair value of the loans 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.

Estimated fair value of fixed interest-bearing deposits and bonds 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.

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28. Fair value of financial instruments (continued)
b. 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. It does not include fair value information for cash and cash equivalents, receivables and payables, whose carrying amounts are a reasonable approximation of fair value, or for lease liabilities. The tables below include both instruments measured at fair value and those that are not.

| 30 June 2021 | Carrying amounts | | | | Fair value | | | |
|--|------------------------|-----------------------|----------|------------------------|------------|-----------------------|------------------------|------------------------|
| | Amortised cost | FV - OCI | FVTPL | Total carrying amounts | Level 1 | Level 2 | Level 3 | Total |
| | ETB | | ETB | ETB | ETB | ETB | ETB | ETB |
| Financial Instruments measured at fair value | | | | | | | | |
| Financial assets | | | | | | | | |
| Investment securities | - | 24,195,070,571 | - | 24,195,070,571 | - | 24,195,070,571 | - | 24,195,070,571 |
| Financial Instruments not measured at fair value | | | | | | | | |
| Financial Assets: | | | | | | | | |
| Due from Government of Ethiopia | 294,146,968,065 | - | - | 294,146,968,065 | - | - | 294,146,968,065 | 294,146,968,065 |
| Loans to government banks | 170,649,011,900 | - | - | 170,649,011,900 | - | - | 170,649,011,900 | 170,649,011,900 |
| Loans to private commercial banks | 1,695,719,093 | - | - | 1,695,719,093 | - | - | 1,695,719,093 | 1,695,719,093 |
| Due from foreign institutions - commercial banks | 28,144,049,258 | - | - | 28,144,049,258 | - | - | 28,144,049,258 | 28,144,049,258 |
| Due from foreign institutions - central Banks | 94,285,262,858 | - | - | 94,285,262,858 | - | - | 94,285,262,858 | 94,285,262,858 |
| Funds held with IMF | 527,514,382 | - | - | 527,514,382 | - | - | 527,514,382 | 527,514,382 |
| Other assets - Loans to employees | 56,494,289 | - | - | 56,494,289 | - | - | 56,494,289 | 56,494,289 |
| Other assets - Staff advances | 516,808 | - | - | 516,808 | - | - | 516,808 | 516,808 |
| Total financial assets | 589,505,536,653 | 24,195,070,571 | - | 613,700,607,224 | - | 24,195,070,571 | 589,505,536,653 | 613,700,607,224 |
| Liabilities | | | | | | | | |
| Deposits from local financial institutions, government and government entities | 317,517,568,532 | - | - | 317,517,568,532 | - | - | 317,517,568,532 | 317,517,568,532 |
| Funds due to international financial institutions | 57,665,508,321 | - | - | 57,665,508,321 | - | - | 57,665,508,321 | 57,665,508,321 |
| Due to other institutions | 88,038,683,383 | - | - | 88,038,683,383 | - | - | 88,038,683,383 | 88,038,683,383 |
| Due to the Ministry of Finance | 5,374,906,270 | - | - | 5,374,906,270 | - | - | 5,374,906,270 | 5,374,906,270 |
| Total financial liabilities | 468,596,666,506 | - | - | 468,596,666,506 | - | - | 468,596,666,506 | 468,596,666,506 |

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28. Fair value of financial instruments (continued)
b. Accounting classifications (continued)

| | Carrying amounts | | | | | | Fair value | | | | | | | | | | |
|--|------------------------|---|-----------------------|---|-------|---|------------------------|---|---------|---|-----------------------|---|---------|------------------------|----------------|---|------------------------|
| | Amortised cost | | FV - OCI | | FVTPL | | Total carrying amounts | | Level 1 | | Level 2 | | Level 3 | | Total | | |
| | ETB | | ETB | | ETB | | ETB | | ETB | | ETB | | ETB | | ETB | | |
| 30 June 2020 | | | | | | | | | | | | | | | | | |
| Financial Instruments measured at fair value | | | | | | | | | | | | | | | | | |
| Financial assets | | | | | | | | | | | | | | | | | |
| Investment securities | - | | 14,335,890,889 | - | - | - | 14,335,890,889 | - | - | - | 14,335,890,889 | - | - | - | 14,335,890,889 | - | - |
| Financial Instruments not measured at fair value | | | | | | | | | | | | | | | | | |
| Financial Assets: | | | | | | | | | | | | | | | | | |
| Due from Government of Ethiopia | 243,185,737,950 | - | - | - | - | - | 243,185,737,950 | - | - | - | - | - | - | 243,185,737,950 | - | - | 243,185,737,950 |
| Loans to government banks | 169,258,817,952 | - | - | - | - | - | 169,258,817,952 | - | - | - | - | - | - | 169,258,817,952 | - | - | 169,258,817,952 |
| Loans to private commercial banks | 34,413,090 | - | - | - | - | - | 34,413,090 | - | - | - | - | - | - | 34,413,090 | - | - | 34,413,090 |
| Due from foreign institutions - commercial banks | 20,653,052,148 | - | - | - | - | - | 20,653,052,148 | - | - | - | - | - | - | 20,653,052,148 | - | - | 20,653,052,148 |
| Due from foreign institutions - central Banks | 81,958,441,772 | - | - | - | - | - | 81,958,441,772 | - | - | - | - | - | - | 81,958,441,772 | - | - | 81,958,441,772 |
| Funds held with IMF | 567,343,715 | - | - | - | - | - | 567,343,715 | - | - | - | - | - | - | 567,343,715 | - | - | 567,343,715 |
| Other assets - Loans to employees | 46,076,289 | - | - | - | - | - | 46,076,289 | - | - | - | - | - | - | 46,076,289 | - | - | 46,076,289 |
| Other assets - Staff advances | 158,599 | - | - | - | - | - | 158,599 | - | - | - | - | - | - | 158,599 | - | - | 158,599 |
| Total financial assets | 515,704,041,515 | - | 14,335,890,889 | - | - | - | 530,039,932,404 | - | - | - | 14,335,890,889 | - | - | 515,704,041,515 | - | - | 530,039,932,404 |
| Liabilities | | | | | | | | | | | | | | | | | |
| Deposits from local financial institutions, government and government entities | 267,432,190,177 | - | - | - | - | - | 267,432,190,177 | - | - | - | - | - | - | 267,432,190,177 | - | - | 267,432,190,177 |
| Funds due to international financial institutions | 44,305,871,855 | - | - | - | - | - | 44,305,871,855 | - | - | - | - | - | - | 44,305,871,855 | - | - | 44,305,871,855 |
| Due to other institutions | 70,480,701,572 | - | - | - | - | - | 70,480,701,572 | - | - | - | - | - | - | 70,480,701,572 | - | - | 70,480,701,572 |
| Due to the Ministry of Finance | 15,695,777,487 | - | - | - | - | - | 15,695,777,487 | - | - | - | - | - | - | 15,695,777,487 | - | - | 15,695,777,487 |
| Total financial liabilities | 397,914,541,091 | - | - | - | - | - | 397,914,541,091 | - | - | - | - | - | - | 397,914,541,091 | - | - | 397,914,541,091 |

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28. Fair value of financial instruments (continued)
c. Level 3 reconciliation

The following table shows reconciliation from the beginning balance to the ending balance for fair value measurements in level 3 of the fair value hierarchy

| 30 June 2021 | Due from Government of Ethiopia | | Loans to government banks | | Loans to private commercial banks | | Due from foreign institutions - commercial banks | | Due from foreign institutions - central Banks | | Funds held with IMF | | Other assets - Loans to employees | | Other assets - Staff advances | | Total financial assets | |
|------------------------------|---------------------------------|-----------------|---------------------------|-----------------|-----------------------------------|----------------|--|-----------------|---|-----|---------------------|-----|-----------------------------------|-----|-------------------------------|-----|------------------------|-----|
| | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB |
| Financial Assets | | | | | | | | | | | | | | | | | | |
| Balance as 1 July 2020 | 243,185,737,950 | 169,258,817,952 | 34,413,090 | 20,653,052,148 | 81,958,441,772 | 567,343,715 | 158,599 | 46,076,289 | 515,704,041,515 | | | | | | | | | |
| Total gains and losses | | | | | | | | | | | | | | | | | | |
| in P&L | 2,786,323,042 | 8,758,990,924 | 224,346,904 | 49,612,069 | 9,725,653 | 438,420 | (846,556) | 11,827,746,753 | | | | | | | | | | |
| in OCI | | | | | | | | | | | | | | | | | | |
| Amounts loaned out | 26,375,515 | (3,485,536,881) | 1,436,959,099 | 10,556,039,634 | 16,724,557,614 | (438,420) | 11,264,556 | 25,270,423,029 | | | | | | | | | | |
| Amounts repaid in advance | | | | | | | | | | | | | | | | | | |
| Settlements | 446,895,058 | | | | | | | | | | | | | | | | | |
| Conversions | 47,701,636,500 | (3,883,260,094) | | (3,114,654,593) | (4,407,462,181) | (39,829,333) | | (7,115,051,049) | | | | | | | | | | |
| Transfer into level 3 | | | | | | | | | | | | | | | | | | |
| Balance as at 30th June 2021 | 294,146,968,065 | 170,649,011,900 | 1,695,719,093 | 28,144,049,258 | 94,285,262,858 | 527,514,382 | 56,494,289 | 589,505,536,653 | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | |
| 30 June 2021 | | | | | | | | | | | | | | | | | | |
| Financial Liabilities | | | | | | | | | | | | | | | | | | |
| Balance as 1 July 2020 | 267,432,190,177 | | | 44,305,871,855 | 70,480,701,572 | 15,695,777,487 | 397,914,541,091 | | | | | | | | | | | |
| Total gains and losses | | | | | | | | | | | | | | | | | | |
| in P&L | 4,200,614,733 | | | 111,954,834 | 2,800,398,499 | | 7,112,968,066 | | | | | | | | | | | |
| in OCI | | | | | | | | | | | | | | | | | | |
| Amounts loaned out | 53,202,472,052 | | | 13,294,090,543 | 14,757,583,312 | | 81,254,145,907 | | | | | | | | | | | |
| Amounts repaid in advance | | | | | | | | | | | | | | | | | | |
| Settlements | (7,317,708,430) | | | (46,408,911) | | | (17,684,988,558) | | | | | | | | | | | |
| Conversions | | | | | | | | | | | | | | | | | | |
| Transfer into level 3 | | | | | | | | | | | | | | | | | | |
| Balance as at 30th June 2021 | 317,517,568,532 | | | 57,665,508,321 | 88,038,683,383 | 5,374,906,270 | 468,596,666,506 | | | | | | | | | | | |

National Bank of Ethiopia
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For the year ended 30 June 2021
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28. Fair value of financial instruments (continued)
c. Level 3 reconciliation (continued)

| 30 June 2020 | Due from Government of Ethiopia | Loans to government banks | Loans to private commercial banks | Due from foreign institutions - commercial banks | Due from foreign institutions - central Banks | Funds held with IMF | Other assets - Loans to employees | Other assets - Staff advances | Total financial assets |
|-------------------------------|---------------------------------|---------------------------|-----------------------------------|--|---|---------------------|-----------------------------------|-------------------------------|------------------------|
| | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB |
| Financial Assets | | | | | | | | | |
| Balance as 1 July 2019 | 193,056,315,952 | 95,599,501,832 | - | 18,664,807,327 | 76,063,049,116 | 187,285,310 | 20,276,362 | 2,121,459 | 383,593,357,358 |
| Total gains and losses in P&L | 2,886,556,837 | 5,610,657,846 | 549,806,733 | 614,787,022 | 77,877,233 | 2,915,510 | (468,271) | 969,328 | 9,741,163,582 |
| in OCI | - | (1,308,456,127) | - | - | - | - | - | - | (1,308,456,127) |
| Amounts loaned out | 13,778,661,632 | 4,159,212,606 | (515,393,643) | 10,912,435,309 | 25,622,432,085 | 377,142,895 | 26,268,198 | - | 54,360,759,082 |
| Amounts repaid in advance | - | - | - | - | - | - | - | - | - |
| Settlements | 1,053,684,887.00 | (13,934,164,416.00) | - | (9,538,977,510) | (19,804,916,662) | - | - | (993,532) | (42,225,367,233) |
| Conversions | 32,410,518,642 | 79,132,066,211 | - | - | - | - | - | - | 111,542,584,853 |
| Transfer into level 3 | - | - | - | - | - | - | - | - | - |
| Balance as at 30th June 2020 | 243,185,737,950 | 169,258,817,952 | 34,413,090 | 20,653,052,148 | 81,958,441,772 | 567,343,715 | 46,076,289 | 158,599 | 515,704,041,515 |
| | | | | | | | | | |
| 30 June 2020 | | | | | | | | | |
| | | | | | | | | | |
| Financial Liabilities | | | | | | | | | |
| Balance as 1 July 2019 | 188,784,350,335 | - | - | 18,055,745,550 | 60,213,242,241 | - | 14,618,598,516 | - | 281,671,936,642 |
| Total gains and losses in P&L | 4,219,622,435 | - | - | 142,137,810 | 778,429,980 | - | - | - | 5,140,190,225 |
| in OCI | - | - | - | - | - | - | - | - | - |
| Amounts loaned out | 84,257,285,032 | - | - | 26,107,988,495 | 9,489,029,351 | - | - | - | 119,854,302,878 |
| Amounts repaid in advance | - | - | - | - | - | - | - | - | - |
| Settlements | (9,829,067,625) | - | - | - | - | - | (6,766,299,999) | - | (16,595,367,624) |
| Conversions | - | - | - | - | - | - | - | - | - |
| Transfer into level 3 | - | - | - | - | - | - | - | - | - |
| Balance as at 30th June 2020 | 267,432,190,177 | - | - | 44,305,871,855 | 70,480,701,572 | - | 7,843,478,970 | 15,695,777,487 | 397,914,541,091 |

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28. Fair value of financial instruments (continued)
c. Level 3 reconciliation (continued)

Total gains or losses for the year in the above table are presented in the statement of profit or loss and the OCI as follows:

| 30 June 2021 | Due from Government of Ethiopia | Loans to government banks | Loans to private commercial banks | Due from foreign institutions - commercial banks | Due from foreign institutions - central Banks | Funds held with IMF | Other assets - Loans to employees | Other assets - Staff advances | Total financial assets |
|---|---------------------------------|---------------------------|-----------------------------------|--|---|---------------------|-----------------------------------|-------------------------------|------------------------|
| | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB |
| Financial Assets | | | | | | | | | |
| Total gains and losses recognised in the P&L | 2,786,323,042 | 8,758,990,924 | 224,346,904 | 49,612,069 | 9,725,653 | 438,420 | (846,556) | (843,703) | 11,827,746,753 |
| Net trading income | - | - | - | - | - | - | - | - | - |
| Net trading income from other financial instruments carried at fair value | - | - | - | - | - | - | - | - | - |
| Other revenue | - | - | - | - | - | - | - | - | - |
| Total gains and losses recognised in the OCI | - | - | - | - | - | - | - | - | - |
| Fair Value reserve (debt instruments) - net change in fair value | - | - | - | - | - | - | - | - | - |
| Fair Value reserve (equity instruments) - net change in fair value | - | - | - | - | - | - | - | - | - |
| Profit or loss - attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year: | | | | | | | | | |
| Net trading income | 5,223,549,970 | 9,513,137,280 | 224,431,694 | 51,116,381 | 9,725,653 | 438,420 | - | - | 15,022,399,397 |

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(In Ethiopian Birr)

28. Fair value of financial instruments (continued)

c. Level 3 reconciliation (continued)

| 30 June 2021 | Deposits from local financial institutions, government and government entities | | Funds due to international financial institutions | | Due to other institutions | | Due to the Ministry of Finance | | Total financial liabilities | |
|---|--|--|---|--|---------------------------|--|--------------------------------|--|-----------------------------|---------------|
| | ETB | | ETB | | ETB | | ETB | | ETB | |
| Financial Liabilities | | | | | | | | | | |
| Total gains and losses recognised in the P&L | 4,200,614,733 | | 111,954,834 | | 2,800,398,499 | | | | | 7,112,968,066 |
| Net trading income | - | | - | | - | | - | | - | - |
| Net trading income from other financial instruments carried at fair value | - | | - | | - | | - | | - | - |
| Other revenue | - | | - | | - | | - | | - | - |
| Total gains and losses recognised in the OCI | | | | | | | | | | |
| Fair Value reserve (debt instruments) - net change in fair value | - | | - | | - | | - | | - | - |
| Fair Value reserve (equity instruments) - net change in fair value | - | | - | | - | | - | | - | - |
| Profit or loss - attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year: | | | | | | | | | | |
| Net trading income | 4,200,614,733 | | 111,954,834 | | 2,800,398,499 | | | | | 7,112,968,066 |

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28. Fair value of financial instruments (continued)
c. Level 3 reconciliation (continued)

| 30 June 2020 | Due from Government of Ethiopia | Loans to government banks | Loans to private commercial banks | Due from foreign institutions - commercial banks | Due from foreign institutions - central Banks | Funds held with IMF | Other assets - Loans to employees | Other assets - Staff advances | Total financial assets |
|---|---------------------------------|---------------------------|-----------------------------------|--|---|---------------------|-----------------------------------|-------------------------------|------------------------|
| | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB | ETB |
| Financial Assets: | | | | | | | | | |
| Total gains and losses recognised in the P&L | 2,886,556,837 | 5,610,657,846 | 549,806,733 | 614,787,022 | 77,877,233 | 2,915,510 | (468,271) | 969,328 | 9,741,163,582 |
| Net trading income | - | - | - | - | - | - | - | - | - |
| Net trading income from other financial instruments carried at fair value | - | - | - | - | - | - | - | - | - |
| Other revenue | - | - | - | - | - | - | - | - | - |
| Total gains and losses recognised in the OCI | - | - | - | - | - | - | - | - | - |
| Fair Value reserve (debt instruments) - net change in fair value | - | (1,308,456,127) | - | - | - | - | - | - | (1,308,456,127) |
| Fair Value reserve (equity instruments) - net change in fair value | - | - | - | - | - | - | - | - | - |
| Profit or loss - attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year: | | | | | | | | | |
| Net trading income | 4,660,120,236 | 5,935,279,398 | 549,806,733 | 1,118,400,265 | 70,647,237 | 2,791,081 | - | - | 12,337,044,950 |

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28. Fair value of financial instruments (continued)

c. Level 3 reconciliation (continued)

| 30 June 2020 | Deposits from local financial institutions, government and government entities | | Funds due to international financial institutions | | Due to other institutions | | Due to the Ministry of Finance | | Total financial liabilities | |
|---|--|--|---|--|---------------------------|--|--------------------------------|--|-----------------------------|--|
| | ETB | | ETB | | ETB | | ETB | | ETB | |
| Financial Liabilities | | | | | | | | | | |
| Total gains and losses recognised in the P&L | 4,219,622,435 | | 142,137,810 | | 778,429,980 | | - | | 5,140,190,224 | |
| Net trading income | - | | - | | - | | - | | - | |
| Net trading income from other financial instruments carried at fair value | - | | - | | - | | - | | - | |
| Other revenue | - | | - | | - | | - | | - | |
| Total gains and losses recognised in the OCI | - | | - | | - | | - | | - | |
| Fair Value reserve (debt instruments) - net change in fair value | - | | - | | - | | - | | - | |
| Fair Value reserve (equity instruments) - net change in fair value | - | | - | | - | | - | | - | |
| Profit or loss - attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year: | | | | | | | | | | |
| Net trading income | 4,219,622,435 | | 142,137,810 | | 778,429,980 | | - | | 5,140,190,224 | |

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29. Commitments

A commitment is an enforceable, legally binding agreement to make a payment in the future for the purchase of goods or services. These amounts are not recorded in the statement of financial position since the Bank has not yet received the goods or services from the suppliers. The amounts below are what the Bank has committed to pay as at 30 June 2021 based on current expected contract prices.

| <i>Commitments</i> | <u>30 June 2021</u> | <u>30 June 2020</u> |
|-----------------------------------|--------------------------|--------------------------|
| Office and other equipment | 20,141,434 | 8,186,800 |
| Office furniture and fittings | - | - |
| Office and other consumables | 681,570 | - |
| Work in progress | 23,921,406 | 18,824,542 |
| Professional consultancy services | 14,587,540 | 12,820,628 |
| Motor vehicles | - | 5,761,000 |
| Total capital commitments | <u>59,331,949</u> | <u>45,592,970</u> |

These capital commitments will be funded from internal resources.

30. Events after the reporting period

1. In November 2021 and January 2022, rating agencies standard and poor's (S&P) and Fitch Ratings downgraded Ethiopia's sovereign rating to CCC with negative outlook and CCC ratings respectively. This was mainly occasioned by the rising probability of the government's inclusion of commercial creditors as part of its debt restructure strategy as well as application and approval of debt relief from the Paris club of lenders.

The credit downgrade will significantly increase the government's probability of default for the financial year 2022. This is in turn expected to increase the expected credit loss (ECL) provisions for financial assets held by the government and affiliate institutions for the financial year. The Bank continues to monitor the country's credit risk assessment by various external rating bodies and shall seek to align its sovereign credit risk appetite to the same.

2. The bank allowed commercial banks to redeem NBE Bills before their maturity for the following classes of NBE bills:
 - (1) Bills expected to mature between September 2021 and June 2022. This was done to relieve commercial banks from their temporary liquidity shortfalls.
 - (2) Bills expected to mature between July 2022 to August 2025 for the purpose of government treasury bills purchase.

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30. Events after the reporting period (continued)

3. Following decision by the Bank's board of directors in October 2022, the bank restructured the direct advance loan balance outstanding as at 07 October 2022 of ETB. 236,500,000,000 to a 2% government bond which is payable in thirty equal semi annual instalments as from 08 April 2033. Besides the interest rate for direct advance and government and government institutions deposit restructured from 3% to 2%.
4. The bank has issued the following directives after the reporting period. A reliable estimate of their financial effect cannot be made as at the issuance of these financial statements.
 - (1) A directive cited as: Open Market Operations and Standing Facilities Directive No. MFAD/OMO&SFs/001/2021 was issued on 2 August 2021 establishing open market operations and standing facilities as instruments with an aim to effectively manage liquidity in the financial system for purposes of conducting monetary policy. This directive is applicable to financial transactions between the National Bank and Banks operating in Ethiopia that maintains reserve requirements with National Bank for the purpose of open market operations and standing facilities. It seeks to absorb or inject liquidity from and into the financial system and states that all transactions conducted using these Open Market Operations and Standing Facilities shall be in Ethiopian Birr. The directive allows the National Bank to conduct any of the following open market operations: main or standard operations, fine-tuning or non-standard operations; or structural operations. The National Bank may further use any of the following instruments for its open-market operations: repo or reserve repo transactions, granting collateralized loans, outright transactions, issuing NBE certificates or conducting deposit-taking operations. This directive serves to ensure the NBE through its powers and duties can regulate and determine the supply and availability of money and credit as well as the applicable interest rates for the purpose of maintaining price and financial stability that is conducive to the balanced growth of the Ethiopian economy.
 - (2) A directive on Licensing and supervision of banking business cited as Reserve requirement - 8th replacement directive No. SBB/84/2022 was issued on 9 June 2022 mandating banks to open two separate Birr accounts with the National Bank of Ethiopia to be used as follows: a reserve account that is used exclusively to maintain the reserve balance amounting to 7% on average in every calendar month, of all Birr and foreign currency deposit liabilities held in the form of demand/current deposits, savings deposits and time deposits. Further, the same banks shall maintain at all times a minimum of 5% of all Birr and foreign currency deposit liabilities held in the form of demand/current deposits, savings deposits and time deposits. The banks shall also not withdraw any money from its reserve account without prior approval of the Bank Supervision Directorate of the National Bank of Ethiopia. In addition, the banks can request for transfer to Payment and Settlement accounts maintained with the National Bank if daily reserve ratio is above 5%, however, these banks must ensure that average

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30. Events after the reporting period (continued)

reserve ratio of a calendar month is 7% at minimum. Banks are also expected to maintain a payments and settlement account to be used to carry out all day-to-day transactions of the banks through the National Bank. This new directive has brought in changes on the minimum reserve balance that banks can hold as stipulated in the previous directive with a view to ensuring NBE exercises its mandate as vested in it to oversee monetary management, regulation and supervision of banks. The previous directive cited as Reserve Requirement – 7th Replacement directives No. SBB/80/2021 was issued on 1 September 2021 mandated banks to open two separate Birr accounts with the National Bank of Ethiopia to be used as follows: a reserve account that is used exclusively to maintain the reserve balance amounting to 7% on average in every calendar month, of all Birr and foreign currency deposit liabilities held in the form of demand/current deposits, savings deposits and time deposits and a payments and settlement account which mandated that banks shall use a payments and settlement account to be used to carry out all day-to-day transactions of banks through the National Bank of Ethiopia.

- (3) A directive on licensing and supervision of banking business cited as: Investment on DBE bonds Directive No. SBB/81/2021 was issued on 1 September 2021. The directive is applicable to all commercial banks operating in Ethiopia and stipulates the following: commercial banks shall invest on an annual basis a minimum of 1% of its outstanding loans and advance in DBE Bond until the aggregated bond holding equals 10% of its total outstanding loans and advances; the audited total outstanding loans and advance position of a bank as of June 30 of each year shall be used as a basis to determine the required level of investment in the following year; the DBE bond shall have a maturity of 3 years starting from the issue date and shall pay a bond rate of at least 2 percentage points higher than the minimum interest rate paid on saving deposit at the time of issuance and interest on these DBE bonds shall be paid annually. The directive further states that the DBE bonds shall explicitly be guaranteed by the Federal Government of Ethiopia, fully and unconditionally. From an administration perspective, banks shall annually submit investment in DBE bond showing the amount of outstanding loans and advances and amounts of annual investment in DBE bonds within 3 days from their investment with the National Bank debiting Payment and Settlement Account of the bank based on the bank's report and at the same time credit Payment and Settlement Account of DBE for the same amount. DBE shall annually submit interest on each bank's investment in DBE Bond report to the National Bank within 3 days from June 30 of each year and shall debit Payment and Settlement Account of DBE based on its report and at the same time credit Payment and Settlement Account of each commercial bank with for the respective amount. The main purpose of this directive is to secure stable and long-term funding so as to sustainably finance development-oriented projects.

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30. Events after the reporting period (continued)

- (6) Retention and Utilization of Export Earnings and Inward Remittances directive No. FXD/79/2022 was issued on 6 January 2022 mandating all banks to surrender seventy percent (70%) of foreign exchange earnings from export of goods, services, private transfers (remittance) and NGO's transfers to the National Bank of Ethiopia. The directive also confers rights to licensed exporters of goods and services and recipients of inward remittances to retain twenty percent (20%) of their export earnings in foreign currency indeterminately in a retention account and either use these funds for the importation of goods and payment of services or sell the foreign currency held at prescribed rates. The directive further instructs that the remaining ten percent (10%) be surrendered to the respective bank at the prevailing buying exchange rate immediately on the day of the receipt and the bank to effect the payment of the equivalent Birr to an eligible customer. This directive replaces the previous directive – cited as FXD /73/2021 and which was issued on 01 September 2021. The previous directive mandated banks on how to open foreign exchange retention accounts for eligible exporters of goods, services and inward remittances. The directive further guided that banks were required to surrender 50% of the Foreign currency earnings from export of goods and services, private transfers (remittance) and NGO's transfers to the NBE as well as only credit funds in retention accounts only when the recipient (beneficiary) has given written authority and banks can credit funds in retention account for merchants and/or entities licensed by the NBE to collect credit card/debit card/prepaid card/payments for goods and service they sell. Overall, the directive aimed at incentivizing eligible exporters of goods and services and recipients of inward remittances in line with the power and responsibility vested on the NBE.
5. The National Bank of Ethiopia is responsible for supply of bank notes and coins throughout the country. The bank has no branches in regions and hence delegated commercial banks to act as its agent banks (issue branches) with responsibility to distribute and collect banknotes/coins across the country on behalf of NBE. The following issue branches have been operating in security tensioned areas and thus the issue accounts held by each branch are not fully reconciled. These are:
- (1) Endasselassie issue branch (CBE)
 - (2) Adwa issue branch (CBE)
 - (3) Dessie issue branch (CBE)
 - (4) Dessie issue branch (Dashen Bank)
 - (5) Nedjo Inssue branch (CBE)

In total, the potential loss is expected to be in birr 1,539,577,832 due to the state of armed unrest in the aforementioned areas. Actual losses will be audited and reported in collaboration with the concerned stakeholders (agent banks) to quantify the loss.